H. J. Heinz Company Annual Report 1978.

These people have something to say to you:

Samuel Jesse

John Pickett

Kathy Shaw

Rod Kisich

Charles A. Kerrin

Bob Lamm

Dorothy E. DeFoor

Harry Y. Takami

Mary Ann Konefal

Norma Marich

Carl Saldana

As we did last year, we have turned over a major portion of this annual report to the people who work for us. The idea, as you will read, was to encourage a flow of views from a most important source. The signatures of those who were chosen to talk to you—and a difficult choice it was—appear on the cover. They are as distinctive as their authors, whose words can be found in the special section beginning on page 19.

H. J. Heinz Company Annual Report 1978

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Heinz: A Definition

H. J. Heinz Company is a worldwide organization devoted to the human purpose of business. Its 34,000 employees work primarily out of production facilities in more than 40 major locations spanning all the continents. They draw upon global land and sea resources for raw materials, which they transform into hundreds of products for retail and foodservice markets in more than 150 countries and territories. They follow the highest standards of quality and nutrition in their work, which consists of the production and sale of processed food products and food ingredients. This annual report is dedicated to them, for in the final definition it is they who compose, in aggregate, what is known as H. J. Heinz Company.

H. J. Heinz Company
P.O. Box 57
Pittsburgh
Pennsylvania 15230
Telephone (412) 237-5757

Highlights

In thousands except per share data	1978	1977	Change
Sales	$2,150,027	$1,868,820	15.0 %
Operating income	185,607	172,827	7.4
Net income	99,171	83,816	18.3
Per common share amounts:			
Net income	$ 4.25	$ 3.55	19.7 %
Net income (fully diluted)	4.13	3.47	19.0
Dividends	1.42	1.06⅔	33.1
Book value	28.96	26.27	10.2
Capital expenditures	$ 95,408	$ 53,679	77.7 %
Depreciation expense	31,564	29,697	6.3
Net property	412,334	356,394	15.7
Cash and short-term investments	$ 84,044	$ 175,600	(52.1)%
Working capital	445,127	472,232	(5.7)
Total debt	228,002	220,779	3.3
Shareholders' equity	702,736	655,480	7.2
Average number of common shares outstanding	22,610	22,743	
Current ratio	2.14	2.25	
Debt/invested capital	25.0%	26.5%	
Pretax return on average invested capital	20.8%	20.2%	
Return on average shareholders' equity	14.6%	13.4%	

To Our Shareholders:

Fiscal 1978 went into the books as the 15th consecutive year of record results for H. J. Heinz Company. Earnings rose to another new high. Sales reached more than $2 billion, only six years after we had passed the $1-billion mark for the first time in our century-long history.

The story of our fiscal 1978 accomplishments appears in summary form on the opposite page and in greater detail in the financial section of this annual report.

These accomplishments, against a backdrop of economic imbalances and social unrest in a number of marketing areas, confirm the success of our efforts to strengthen our financial and managerial resources during the past decade and a half. Each year over that span has found the company stronger than ever in its ability to prosper through difficult times. We are determined to work to maintain the financial integrity of our enterprise and support its future growth toward ever-higher levels.

We are equally determined to remain a model of managerial skills among the world's major corporations. The success of our managers in coping with external problems proves the efficacy of our system of decentralized responsibility.

Currency instability worsened during fiscal 1978 and took on an American accent as the dollar weakened against several currencies. Even the beleaguered British pound rose against the dollar, to a point well above last year's all-time low. As a result, we had currency translation gains amounting to 30¢ per common share, versus a loss of 45¢ last year.

The dollar's recent weakness is troubling, since it indicates a failure to deal with domestic inflation, the energy situation, declining productivity, escalating reliance upon petroleum imports, and a political climate that discourages the capital investment needed for a growth economy. Stable world currencies are the key to heightened international trade and world growth. They cannot be achieved so long as governments, including our own, fuel inflation by diverting larger and larger shares of the gross national product into nonproductive areas.

While international problems concern us deeply, Heinz is less vulnerable than many other corporations with overseas operations. We are not a "multinational" in the usual sense. Our companies produce little for export. Rather, they make and market goods for consumers of the national or regional areas in which they operate. In addition, our American complexion has been taking on greater importance. Continuing a trend established several years ago, domestic operations in fiscal 1978 contributed 62% to consolidated sales and 67% to earnings.

Offshore operations are still growing and profitable, and modest additional investments are planned for the more promising areas. We are concentrating most new investments, however, in the less vulnerable American market. Last year, Heinz-U.S.A., Star-Kist and Ore-Ida reported significant gains. Hubinger, whose current results are affected by price weakness in its markets, nevertheless remains an attractive long-term investment.

Heinz-U.S.A. continued to improve sales and earnings, once again enlarging its contribution to consolidated results. Increased advertising expenditures boosted market shares for traditional lines. Emergence of the "new" American family, with two or more wage earners, continued to augment restaurant volume, a trend favorable to Heinz. Profit margins benefited from an ongoing program to close uneconomical production facilities and phase out low-margin products.

U.S. governmental action to limit the number of porpoises that may be taken with the tuna catch worked to the detriment of the American fleet, while foreign boats continue unrestricted fishing. The porpoise problem is well on its way to solution through development of more sophisticated fishing equipment and techniques, but damage has already been done in the form of higher tuna prices for both processors and consumers. Even so, Star-Kist had another satisfactory year.

Ore-Ida, continuing its expansion as a processor and marketer of frozen food products, enlarged its leading share of the branded retail frozen potato market and made strong inroads into the frozen pizza and ready-to-bake cookie markets.

Negotiations continued apace at year end for acquisition of Weight Watchers International, Inc., and Foodways National, Inc., transactions involving approximately $121 million. Weight Watchers owns and franchises weight-control classes in all 50 states and overseas. Foodways, a principal Weight Watchers licensee, makes and markets frozen dinners and portion-controlled entrees, bouillon cubes and sugar substitutes under the Weight Watchers label for the U.S. market.

The Foodways acquisition was completed on June 30, 1978.

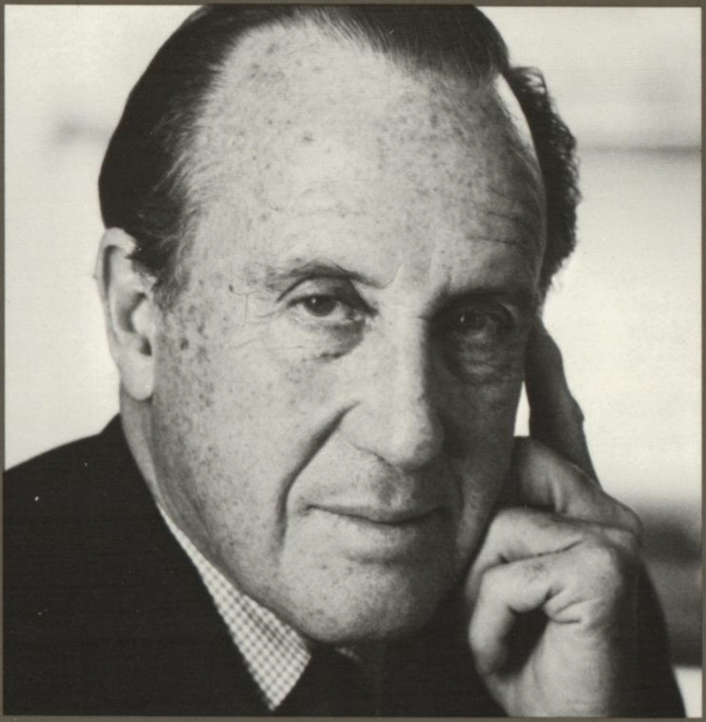
Our fourth domestic operation, The Hubinger Company, faces price weakness in its corn sweetener markets as a result of industry overcapacity and low sugar prices. Improved conditions for its products are not yet apparent, but we have confidence that Hubinger's construction of new facilities will find it ready to participate profitably over the long term.

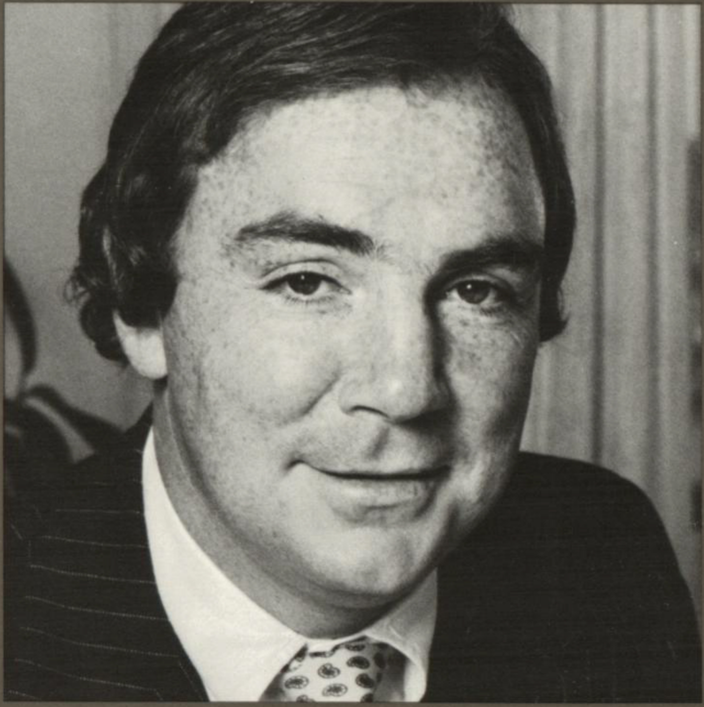
In Europe, the prevailing climate was one of economic stagnation brought on by persisting inflation and unemployment, with no sign of a revival of the strong growth experienced during most of the postwar period. In the United Kingdom, although inflation eased and North Sea oil held promise, consumers lost purchasing power and reduced their purchases of processed foods, which rose in price while fresh foods became cheaper. Nevertheless, Heinz-U.K. held its position as one of the country's leading food processors.

Another good performance in a weak economy was that of PLADA in Italy, where political violence, social unrest and a fragile economy added up to a most difficult year for business. PLADA now dominates its market in several product categories and is the country's leading producer of pre- and postweaning baby foods. It has made progress beyond the infant market by adding products for school-age children and for adults. Introduction of a children's snack food attracted wide attention as one of the most significant marketing developments of recent years.

Our faith that Heinz companies can weather current and future storms with uninterrupted growth and profitability is evident in our dividend policy, which we review at frequent intervals to determine the possibility of increased payout to our shareholders. During fiscal 1978, the board of directors approved two increases in the common stock dividend, bringing the quarterly rate at year end to 40¢ per share, or $1.60 on an annual basis. This would mean a boost of 50% over the $1.06⅔ per share paid in fiscal 1977.

Also during the year, we authorized and completed a program to repurchase 500,000 shares of Heinz common stock. At an average price of slightly less than $35 per share, this was, we felt, a prudent investment to obtain common shares to be held in the treasury for use in connection with the exercise of stock options and the conversion of preferred stock.





Henry J. Heinz II
R. Burt Gookin
Anthony J. F. O'Reilly

Once again, in this annual report, we include a special section on our employees. Last year's report called attention to the impressive vitality and individuality of Heinz people around the world, as evidenced by the many interests they pursue in their nonworking hours. This year, the focus is on American employees, their hopes, concerns and opinions at a crucial time in the nation's history.

We hope the space devoted to these people and their views will demonstrate our devotion to what we have called "the human purpose of business." These people, their families, and millions like them represent a mighty resource for the freedom that makes possible the infinite variety of American life. We have listened to them with deep interest and respect, and invite our shareholders to do the same.

As for management's role in the future of this enterprise, our obligation is clear. We remain dedicated to strengthening this company so that it can even better than ever serve its customers, provide useful and rewarding work for its employees, and protect its shareholders' investments through appropriate returns and share appreciation.

Fiscal 1979 offers no prospect of relief from the problems that weighed so heavily upon us in fiscal 1978. Inflation is not likely to come under control until governments restore fiscal integrity to the public balance sheet. At this time, there is little evidence of increased economic vitality in Europe, while the economies of other world areas in which we market our products remain under strain. In the United States, inflationary pressures threaten to weaken our economy unless we take more vigorous measures to encourage capital investment and to advance self-sufficiency in energy.

On the evidence of our past ability to move ahead despite these problems, we believe that fiscal 1979 can be another good year for Heinz. Certainly, we will not relax our efforts to reach new ground for the 16th consecutive year. The firm base from which we now operate makes us confident that we will attain or surpass our targets.

Henry J. Heinz II
Chairman

R. Burt Gookin
Vice Chairman and Chief
Executive Officer

Anthony J. F. O'Reilly
President and Chief
Operating Officer

Marketing

The world economic environment in fiscal 1978 was one of stagnation in many areas and only limited growth in others. The fear of even worse inflation worked against economic stimulation in Europe, while in the United States there was no consensus on how to keep the economy moving without a return to double-digit inflation. In many Heinz markets, a reduction in consumer purchasing power brought intensified competition. How to maintain profit margins at levels encouraging to continued growth remained a major concern of all Heinz companies.

For all that, every company continued profitable during the year, underscoring the marketing strength now inherent throughout the Heinz organization. In some instances, this strength was used primarily to maintain already strong market shares, as in the United Kingdom. Elsewhere, as in the United States, it went also into the aggressive launch of new products.

Every company benefited from the long-established policy of decentralized management, under which individual managers have considerable leeway in deploying their resources to best advantage under conditions prevailing in their local markets.

Heinz U.S.A. again made a major contribution to higher consolidated sales and earnings. Operating from a more efficient base, and moving actively to expand market shares for traditional products while carving out markets for new entries, it continued the uptrend that has been paying off in significantly better results.

Ketchup achieved the highest dollar share of market in its long history. Repositioning of 57 steak sauce for greater versatility as a recipe ingredient helped that product to move ahead in its category. A reformulated and repositioned barbecue sauce moved into three test markets, where volume rose by 20%. A new advertising campaign for vinegar, of which Heinz is the only national marketer, produced a larger share of market.

New packaging and labels boosted sales for other basic lines. Color-coded labels and redesigned jars for pickles and relishes enhanced their on-shelf visibility. The company completed a switchover of baby juice from cans to bottles. The new bottles, which can be fitted with standard nipples for easy feeding, have been well received. Shipments of baby juice in bottles rose by 50% over the previous year's shipments in cans.

Removal of added salt from all baby food products and elimination or reduction of added sweeteners resulted in a "new" line that was strongly promoted with good results. The company's action won a citation from the International Preventive Medicine Foundation for a "significant contribution to the future health of America's future citizens."

HomeStyle gravies, offered in four popular varieties packed in resealable jars, went into national launch, with results that indicated a repeat of the line's excellent performance in test markets. Heinz U.S.A. followed up with market tests for a line of basic cooking sauces. Results to date are encouraging.

Foodservice sales remained strong, reflecting the accelerating growth of restaurant chains and the higher volume of food eaten away from home, particularly by the rising number of families

with working women. A special promotion of Heinz foodservice products during January, 1978 helped to push sales for that month to the highest level ever.

Bottled ketchup hiked its lead in the food-service market as its share advanced beyond the 60% level to reach a new high. Single-serve ketchup, benefiting from consumer recognition of the Heinz label, won market leadership in its category with the highest share in its history. Vol-Pak ketchup, made possible by a technological breakthrough exclusive with Heinz, was offered to foodservice customers in economical 3-gallon plastic bags and achieved a dramatic increase in sales after acceptance by almost all fast food chains.

The growing importance of Heinz U.S.A. as a processor and marketer of frozen desserts, primarily for foodservice chains, manifested itself in higher sales for the line of cakes, pies and cheesecakes, now in national distribution, made at Lake City, Pennsylvania. Two new varieties added during the year brought the total to 10. The individual-portion "Mini Dessert" foodservice line also grew, from four varieties to seven. Production of individual desserts will be expanded in fiscal 1979 in response to excellent acceptance.

Another foodservice line showing strength was restaurant-pack soups, which serve what has been described as "by far the fastest-growing category" for this market. Several major restaurant chains now use this product on a test basis, and there are indications that soups will expand their market significantly.

For the seventh consecutive year, foodservice distributor principals and salesmen voted Heinz U.S.A. the country's number one supplier in a poll conducted by Institutional Distribution magazine.

With tuna prices higher through much of the year, Star-Kist was able to increase sales and, in some cases, boost market shares. Among major promotion efforts was extended sponsorship of the popular underwater show at San Diego's Sea World Marine Park.

Charlie the Tuna, Star-Kist's famous television spokesman, retained his high "ratings" with viewers, and his enduring appeal led to a decision to use him on the logotype for the company's products. By the end of the year, the well-known character was appearing on all Star-Kist labels.

9-Lives canned specialty cat food retained its position as the number one brand in the United States and gained impressively in both sales and market share. Four unique flavors were added to the line, giving consumers a wider than ever choice—25 varieties and 19 flavors. Morris the Cat went through another season in his starring role as advocate for 9-Lives products.

9-Lives Square Meal soft moist cat food, the only product of its kind with three flavors in every serving, and the first and only such product packed in convenient multiserve cans, was heavily promoted as it completed its second year in national distribution. 9-Lives Dry, which is now available in 66% of the United States, as well as Canada, increased its share of market.

Ore-Ida wrote new chapters in the success story that has made it a leading factor within the frozen food industry. The company expanded both sales and market shares and now holds more than 50% of the branded retail frozen potato market. National distribution of Crispers, a specialty frozen French fry product, was completed during the year.

La Pizzeria frozen pizza met with notable success after its introduction into the heavily populated and highly competitive Northeast market, and is already the leading premium frozen pizza in many of the area's larger cities. The growing popularity of this quality product suggests that it will become a leading factor in Ore-Ida's business.

Mrs. Goodcookie, the ready-to-bake frozen cookie product, moved from test markets into almost total national distribution, with good trade and consumer response.

Heinz should take on a new dimension in frozen food marketing with the acquisition of Foodways National, completed on June 30, 1978, and of Weight Watchers, with which an agreement in principle was reached in May.

The Hubinger Company began to market a new high fructose corn syrup product designed for use by the beverage, baking and processed foods industries. The company encountered competitive pressures due to price weakness in corn syrups and a continuing world oversupply of sugar, which competes with corn-based sweeteners on a price basis. While Hubinger's short-term outlook is still uncertain, greater use of corn-based sweeteners over the long term—helped by increased import duties on beet and cane sugar and the ratification of an International Sugar Agreement—is expected to strengthen the company's sales and profits.

An economic slowdown, high unemployment and wage and price controls hindered progress at Heinz-Canada, but the expiration of price controls near the end of the year was an encouraging development. Profits remained at a level close to that of fiscal 1977, chiefly because of higher volume.

Traditional products did well. Heinz ketchup recorded an all-time high in market share. The company relaunched five existing baby juice varieties in glass containers and added four varieties to the line. Baby foods were reformulated to eliminate added salt and to reduce added sugar, and these changes, along with other nutrition information, were transmitted to health professionals and the media in two "nutrition update" meetings.

The company placed Spread'n Grill in test markets as a pizza-flavored ready-to-use product that can be spread on toast and then heated to provide a hot snack or lunch.

Heinz-U.K., in the face of a combination of marketing problems, turned in a remarkable performance, with a modest increase in both sales and operating income. Retail food stores mounted a severe price war, exerting pressure upon their suppliers. Inflation, while abating somewhat, remained unacceptably high, as did unemployment. Ambiguous and arbitrary government measures led to restraints more extensive than the specific statutory price and wage controls they replaced. Processed food prices went up while those for fresh foods fell, and British consumers, suffering a drop in real disposable income, chose to economize on food.

Heinz's long-established reputation in Britain helped the company to maintain market shares during a period when many consumers "traded down." Ketchup sales rose by 10%, recapturing a 50% market share. The new 30-ounce size progressed from successful regional testing into national distribution.

In canned soups, the Heinz market share climbed to a new high of 66.5%, thanks partly to the continued success of Big Soups and low calorie varieties. Pickle sales were up by 35%, giving the company a new high in market share. After national launch at midyear, Ploughman's Pickle moved quickly to take 20% of the sweet pickle market, compared with the 2% share held by an earlier Heinz product. Trade buyers voted Big Soups and Ploughman's Pickle among the year's 10 most successful grocery launches.

The company expanded its volume of sales to the foodservice industry, despite the lack of real growth in that industry. Fruit juice sales rose by more than 20%, for the third consecutive year. Also up were soup sales to fast food and restaurant customers. The popularity of fast food outlets contributed to a 14% jump in sales of ketchup packed in large containers.

Heinz-U.K.'s mushroom interests had a good year, as did its Pickerings Foods group, particularly in vegetable, fruit and chicken operations.

PLADA offered another example of what aggressive marketing and a strong consumer franchise can accomplish even in difficult times. Economic, political and social instability in Italy led to a general business slowdown, but PLADA was able to boost market shares while profits rose for the third straight year and cash generation reached record levels. The total market for pre- and postweaning baby food products fell, but the baby biscuit market, also crucial for PLADA, held firm.

Expansion of existing market shares for basic products benefited from a number of line extensions, including new varieties of milk-based cereals, powdered infant milk products and low protein foods. We took over leadership in milk-based cereals during the year, while physical volume of our branded biscuits was at record levels despite the continued drop in Italian births. Progress in biscuit sales is a direct result of a company strategy that aims at enlarging the market to include school-age children and the elderly, as well as infants.

A new whole wheat cracker was added to the line of diet-control products, and went into test markets prior to national launch planned for early fiscal 1979. The most significant new product of the year—possibly the most important since strained baby foods came onto the scene some 15 years ago—was Ergo Spalma. Supported by a strong advertising campaign aimed at the market for youngsters' snack foods, this chocolate-nut spread can be eaten on bread or spooned directly from the jar. By year end, Ergo Spalma had captured a significant portion of the $90-million market for this type of product. Other Ergo brand varieties have already given PLADA a firm position among school-age foods.

Heinz-Central Europe passed through a difficult year characterized by little or no growth in the markets it serves, intensified competition and an inability to raise prices in line with inflation. The organization maintained progress through product innovation and improvement in market shares for some existing varieties, notably ketchup.

Ketchup packed in squeeze tubes was introduced into all four countries served by Central Europe. In The Netherlands, the only one of the four in which the new package had competition, it won 20% of ketchup-in-a-tube sales in just two months. Sales of ketchup in traditional containers also rose, and Heinz now has more than half of the Dutch market for this product.

Also in The Netherlands, consumer demand for smaller units led to six sauces packed in half-liter squeeze bottles, and Heinz now has 60% of the market for sauces in plastic bottles. For the food-service industry, Heinz introduced two sauces in plastic pails, boosting sauce volume by 42%, and relaunched its line of canned soups, achieving margin improvement as well as a volume rise.

In France, Heinz ketchup retained its 50% share of the important Paris-area market and made distribution gains elsewhere. In Belgium, ketchup's share reached an all-time high of 85%. Taking note of the growing popularity of barbecuing among German consumers, Heinz made six "Grill House" sauces available along with new sauce varieties for meat dishes and specialty foods.

A vigorous economy based upon oil revenues improved living standards in Venezuela and created unprecedented demand for processed foods. Alimentos Heinz posted a healthy increase in sales as it concentrated upon widening shares for existing lines. Ketchup held a record brand share of 50% and baby food volume expanded by 31% despite stiff competition.

Heinz-Australia operated in an atmosphere of continuing high inflation and a marginal decline in living standards. Government-approved price increases for Heinz products were lower than both the inflation rate and the rate of wage increases.

Although some total markets declined, the company maintained shares for its basic products. It improved its share in canned soups to a new high of 43% and held its share of a baby food market that declined because of a falling birthrate and increased reliance upon breast feeding. It increased its sales of glass-packed baby foods, thanks to a successful new line of yoghurt desserts, the first ever made that remain stable on the shelf without refrigeration.

Heinz-Australia scored good gains in the canned salad market through introduction of bean salads and now has the dominant brand in this market, with a share of more than 50%. Market share for baked beans soared to a new high of 62%, while canned spaghetti held at the previous year's level in both volume and market share.

The company brought out a new 10-flavor line of single-serve hot entrees for industrial canteens, hospitals, universities and similar outlets. At present, sales volume is limited by a shortage of the imported vending machines from which the product is dispensed.

The Stanley Wine Company achieved a 75% leap in over-all sales volume of branded bottles, flagons and casks as it introduced 14 new varieties, including wines for consumption during the year of vintage. The company gained further prestige by winning a record number of awards at State wine shows. It also acquired the State of Victoria agency for Suntory wines and whiskies imported from Japan.

Heinz-Australia widened its markets when it became agent for Amoy Chinese food specialties made in Hong Kong and for a line of fruits and liqueurs packed by C. &. E. Baitz. Both product groups have enjoyed rising sales since coming under the Heinz wing.

The Portuguese company, faced with mounting competition, maintained its leadership in domestic sales of all its tomato products.

A weaker economy, accompanied by a rapid rise in the value of the yen, worsened the business climate in Japan, but Nichiro Heinz achieved strong increases in sales and the highest profits

in its history. Much of this improved performance was due to introduction of new products for the grocery and foodservice trades.

New grocery products included a spaghetti sauce using textured vegetable protein, while entries for the foodservice sector included a highly concentrated bouillon in liquid form, demi glace sauce, condensed cream of potage soup, and glace de viande (canned meat glaze). Products already in distribution, such as cooking sauces and condensed soups, recorded sales gains ranging from 31% to 153%.

Facilities

Faced with ever higher costs, Heinz companies found their ability to compensate through price increases limited by government controls and increased competition. They continued, therefore, to emphasize maximum operating efficiency. They met their goals in a number of ways—installation of advanced production equipment, upgrading of work procedures, the shutdown of outmoded facilities and the consolidation of operations into facilities that offered distinct cost advantages.

Heinz U.S.A.'s ongoing program was a significant factor in its improved profit margins. The company doubled pickle production at Tracy, California, so that all West Coast requirements are now met from this single location. One result has been substantial savings in distribution costs, it being no longer necessary to move the product to California from the factory at Holland, Michigan.

Early in the year, a high-speed production line in Lithonia, Georgia went into operation, doubling capacity for frozen pizza. At Lake City, Pennsylvania, a new filling line will produce single-serving "Mini Desserts," targeted primarily at fast food chains and other restaurants, in a successful addition to the range of Heinz frozen desserts.

Production at the Pittsburgh factory was greatly expanded with the transfer of seasonal baby food production from the Chambersburg, Pennsylvania factory, which was permanently closed.

The Stockton, California factory was converted to accommodate a new system under which tomato paste is vacuum cooled and aseptically filled to provide a product of superior color, flavor and quality. The company expanded production of HomeStyle gravies at Muscatine, Iowa, where a new filling line has been running at full capacity since its first days of operation in an effort to meet demand for this new product, now in national distribution.

The previous year's successful introduction of electronic process controls at the Fremont, Ohio factory led to the installation of similar controls at Tracy and Stockton after experimental runs proved more than satisfactory. Transfer of ketchup bottling operations from the discontinued Salem, New Jersey factory to Fremont was effected during the year.

Star-Kist completed a new Terminal Island, California facility that enlarges capacity for packing seafood for human and pet consumption. The company began construction of a 4,000-ton cold storage facility for tuna and pet food supplies. With the transfer of can lines from the Heinz U.S.A. factory at Stockton, Star-Kist's Terminal Island operation is now able to meet all can requirements for Heinz West Coast operations, in addition to its own. The Pet Food Research Center was doubled in size for greater emphasis upon nutrition and palatability.

Star-Kist's operation in American Samoa also is self-sufficient in can manufacture, thanks to transfer of a line from Muscatine. Other improve-

ments at the Samoa location include a new spray chamber for cooling tuna to step up efficiency and yields. In Puerto Rico, the company has installed an additional cleaning table to increase tuna-packing capacity and, in co-operation with the Environmental Protection Agency, has designed and built a waste water treatment system owned jointly with other processors in the area.

Ore-Ida began construction of what is believed to be the country's most modern and efficient frozen potato processing facility. Located at Plover, Wisconsin and due to open in July of 1979, the new factory will process a variety of frozen potato products. Work at the Massillon, Ohio factory, including a new bakery building, has increased frozen pizza capacity there by about 65-70%.

Other Ore-Ida projects completed during the year included a new air wash system at Burley, Idaho; improved waste treatment facilities at Ontario, Oregon; installation of stretch-wrapping equipment at all four company locations; and development and testing of a prototype electronic sorter designed to achieve major economies throughout the company.

Ore-Ida continued its investigation into the feasibility of making a synthetic fuel, methane gas, from potato waste. The company reached the final planning stage for a new corporate headquarters building in Boise, Idaho, with occupancy scheduled for July of 1979.

The Hubinger Company neared completion of a new, highly automated facility for production of a full line of high-quality corn sweeteners. One of the most advanced units in the industry, it will turn out high fructose and regular corn syrups. Facilities for producing a second generation of high fructose corn syrups are under construction. A new pilot plant will aid in product development.

Heinz-Canada expanded tomato paste storage facilities to maintain production capacity and permit maximum use of advanced bulk storage methods. The company expects to be able to produce all its tomato solid requirements in good crop years, remaining independent of world market conditions. Other projects adding to the efficiency of the Canadian operation include a new central pickle receiving station, expansion of infant cereal production, an additional line to produce baby juices in glass, and a new filling line for foodservice varieties.

Heinz-U.K. made significant capital improvements at its three leading production sites: Harlesden, Kitt Green and Standish. Major projects covered additional cold storage facilities, new filling lines, installations for better cost control, new sterilizers, advanced soup-filling equipment, improved factory ventilation and a new line for pasta products. More than 100 other projects were under study in areas such as new product development, sophisticated technologies and advanced production processes.

At Latina, in the south of Italy, Heinz developed plans for greater efficiency through changes in factory structure, layout and organization. Under way are a new soundproofing system, a receiving department for bulk fruit purees and a building addition. Other changes will increase the effectiveness of the factory's computer operations in production planning and inventory control.

Improvements at the Milan factory included rebuilding of the heating plant to reduce energy costs, a packaging facility for long pasta, and modernization of a water treatment plant to reduce pollution as well as energy costs. At Ozzano Taro, new production facilities for diastased flour—formerly bought from third parties—Ergo Sprint, Ergo Cappuccio and infant powdered milk were completed, and the milk-based cereal packaging operation was modernized.

Major capital improvements undertaken by Heinz-Central Europe were a 250-ton-capacity cold storage room, a new sauce line able to handle 250 bottles per minute and an advanced centrifuge system for emptying tomato paste containers, all at the factory in Elst, The Netherlands.

Alimentos Heinz opened a new branch warehouse in the Venezuelan state of Bolivar, one of the world's fastest-growing industrial areas. Since the warehouse opened last fall, Heinz sales in the area have increased by 95%. Other improvements to keep up with the booming demand for processed food products were expanded baby food capacity and installation of the country's first aseptic filling line for tomato paste.

In fiscal 1977, Heinz-Australia announced an agreement with another food processor to pack P.M.U. brand-name products at the Heinz factory in Dandenong. The agreement worked smoothly in fiscal 1978, with 18% of Dandenong's tonnage being accounted for by non-Heinz brands, mostly P.M.U. The factory's ability to meet its own requirements as well as those of other packers is due in part to discontinuance of low-volume Heinz products, which freed production capacity for more profitable use.

Dandenong also put into operation a new facility, believed to be the world's first of its kind, for packing 300-gallon tomato paste bags. The facility went onstream only nine weeks after installation and commissioning. A third cooling tower was built to conserve water use. Except for a single location in the west of the country, all Heinz warehousing operations were centralized so that products are now loaded at Dandenong and shipped from there directly to customers' warehouses.

To help serve a premium cat food market that grew by 50% during the year, Heinz-Australia built a new packing plant for its 9-Lives brand. The facility, located next to the Greenseas tuna packing operation at Eden, New South Wales, can pack 72,000 cans per day.

Faced with sharply rising demand for its products, The Stanley Wine Company added new storage tanks, the tallest in Australia, new packaging equipment, and fermentation tanks with a total capacity of 80,000 gallons. The company planted 30 acres of new vineyards and, with an eye to future production, bought 457 acres of land suitable for grape cultivation.

Land and Sea Resources

Just as marketing skills and efficient operations helped Heinz companies to weather the economic storms of fiscal 1978, so did their ability to identify and secure sources of supply see them through the year's unpredictable turns of nature.

In the United States, the tomato harvest rose substantially, to the second-highest level in history. Despite drought, California produced a crop larger by more than 30%, and tomato paste production grew by more than 50%. In Ohio, however, unfavorable weather cut the harvest. Higher prices are expected to stimulate further expansion in the coming season.

During fiscal 1978, Heinz growers increased their cultivation of new tomato varieties that are particularly suitable for paste and ketchup. Eastern growers boosted their use of the new varieties by 19%, while California growers raised the acreage devoted to them by the same figure. Ketchup yield was considerably higher.

Heinz U.S.A. extended its cucumber procurement to as far away as Spain and Mexico to counter supply shortages in certain sizes.

Tuna supplies were generally below the levels of the year before, but Star-Kist's procurement network was able to maintain adequate supplies.

Ore-Ida expanded its growing areas in Wisconsin, where it is building a factory for frozen potato products. A new storage facility adjacent to the factory will have a capacity of 28 million pounds of raw product.

In the West, Ore-Ida extended its two-year potato contracts, already in effect in Idaho, into Washington and Oregon. These contracts promise greater price stability and give the company an assured supply, while they aid growers by providing a predictable market for their product and enable both parties to plan for the longer term. Acknowledging the importance of growers in the company's success, Ore-Ida conferred its own special "Spuddie Award" upon top-quality producers.

The year's potato crop was above average in quality, yield and acreage in most areas. Its size was 8% above the average of the preceding five years, with 52% of it consisting of No. 1 potatoes, versus 44% the year before and an average of 43% over the five-year period. As a result of these good supply conditions, bruise-free potatoes delivered to Ontario were 83% of the total, a record. The company improved storage conditions by installing sophisticated controls to maintain more precise atmospheric conditions.

Ore-Ida's agriculture and operations staffs, working as a team, undertook the most intensive effort yet to co-ordinate raw product with production needs. The program involves development of a preharvest crop profile, identifying potential problem areas, and development of a storage plan under which potatoes of similar quality are grouped together, with those of highest quality being processed last.

A severe winter that closed The Hubinger Company's port for nearly two and one-half months hindered delivery of grain and feed products to the company's river terminal facility. A record corn crop ensured ample supplies of high-quality raw materials.

Agricultural research by Heinz-Canada paid dividends during the year. Two new tomato varieties proved their worth after long research. Indications are that they will mature early, yield high solids and be well suited for tomato juice production.

Successful planting of new early varieties and good planting conditions resulted in the earliest production start-up in the history of Heinz-Canada's tomato operations, but excessive moisture in late summer soaked tomatoes and reduced solids yield.

The cucumber crop was early and of excellent quality. Except for white pea beans—also damaged by wet weather—most other crops also were in good supply. New cucumber varieties were tested, and research continued into techniques to eliminate the use of bees in pollination, which could result in cucumbers with smaller seed cavities and better slicing characteristics.

Britain became a full member of the European Economic Community on January 1, 1978, marking its complete transformation from a country with relatively cheap food to one that now shares the high-food-cost characteristics of the other EEC members. Heinz-U.K. advanced its tomato paste purchases in order to minimize the sharp rise in import duties that accompanied final membership. Heinz Sagima, the Moroccan company that supplies much of Heinz-U.K.'s paste requirements, produced at maximum capacity during its second full year of operations.

Potatoes, carrots and rutabagas went into surplus after two years of shortage, but apples, gherkins and pickling onions were scarce. Carrots for use in products that require smaller than usual dicing were processed for the first time at Harlesden, where, in addition, facilities were installed for handling potatoes in 20-ton bulk container loads, as against the former 56-pound bags.

Most vegetable and fruit crops for the Central Europe operations were excellent, with a resulting steep drop in prices.

Alimentos Heinz took a leadership role in seeking and obtaining price relief from the Venezuelan government for tomato processors and growers. By encouraging tomato plantings in the western part of the country, Heinz took an important step toward increasing future supplies. In an effort to stimulate local fruit production, Heinz also worked with the government to develop a program under which baby food varieties will contain home-grown fruit.

Early in the fiscal year, Heinz-Australia entered into a joint venture agreement with the Eden Fishermen's Co-operative, with the encouragement and support of the government of New South Wales. Under the agreement, Heinz's landing and freezing facilities may be used by co-op members as needed, and at cost. In addition, the company acts as a selling agent for processed frozen fish and has undertaken to purchase by-products of fish processing either for use in 9-Lives brand cat food or for resale on behalf of the co-op. The joint venture is expected to stimulate fishing activity at Eden and enhance prospects for developing a stronger tuna fleet capable of longer-range fishing.

Quality raw materials were in adequate supply in Australia during the year, and a tomato surplus seemed likely at the end of the harvest season. Heinz increased the efficiency of its operations by converting to the use of bin containers for all bulk handling of agricultural produce.

Public Service

The Heinz policy of decentralized responsibility extends to the area of public service. Company managers are free to decide how resources available for this worthwhile purpose shall best be used in terms of local need. While demands for assistance from the private sector are vast and varied all over the world, compassionate response is necessarily affected by limitations of time, money and manpower. Nonetheless, Heinz companies last year continued their historical practice of generous assistance to various groups in the communities in which they operate.

Heinz U.S.A. has long pushed the cause of better nutrition education. For a series of booklets on infant nutrition and care, Family Circle magazine

and the Food Council of America awarded Heinz a Gold Leaf Certificate of Recognition for "outstanding achievement in creating educational materials for better nutrition." Working with the March of Dimes during "Healthy Baby Week," the company also provided "nutrition breaks" and free nutrition information for expectant mothers. In addition, as stated elsewhere in this report, the International Preventive Medicine Foundation honored Heinz for its action in eliminating added salt and reducing or eliminating added sugar in its baby food products.

For the 25th consecutive year, the Heinz-National Institute for the Foodservice Industry scholarship program offered grants to students pursuing foodservice studies. The value of scholarships awarded every year is now more than $30,000. The company also awards annual Food Distribution scholarships at three major universities.

Donations of food went to more than 30 community service organizations in the Pittsburgh area. Other contributions were made to drug rehabilitation centers and for disaster relief. The company aided victims of the Johnstown flood and of the severe winter storm that crippled the Boston area.

Among Heinz-supported minority group programs and projects of interest to the entire community were such diverse causes as the National Newspaper Publishers' Association merit award program for journalistic achievement, the Willie Stargell Celebrity Bowling Tournament to raise funds for sickle cell anemia research and treatment, and the Bidwell Education, Music and Recreation Center.

Ore-Ida was active in a number of community projects. More than 120 tennis buffs aged 14 or under took part in the first Ore-Ida Tater Tot tennis tournament in Boise. The company gave a Christmas party for some 200 mentally and physically handicapped children in the area. Its ninth annual Christmas card art contest drew more than 400 entries from junior and senior high school students.

The Hubinger Company continued to devote its public service efforts to support of such local organizations as the Keokuk Y and Civic Recreation Center.

Heinz-Canada enlarged its leadership role in infant nutrition, an area on which little definitive research has been done in that country. In co-operation with the National Research Council, the company launched an extensive study of infant feeding habits, growth and development to assist government agencies in formulating guidelines.

In keeping with its prominent position in the British food industry, Heinz-U.K. continued its support of various charitable and educational projects, contributing both money and goods on the basis of need. During the year, the company began a campaign to help raise funds for another National Children's Home. An earlier drive, in which Heinz donated a penny for each Heinz product label turned in by the public, raised the sum of £150,000. The second NCH campaign, for which Heinz made the same pledge, exceeded its goals and enlisted the support of supermarket chains, some of which offered prizes to those organizations collecting the largest number of Heinz labels.

The company also entered into work with the Medical Research Council on provision of food for patients suffering from diabetes and high cholesterol levels.

PLADA made further progress in its efforts to assist the medical profession and Italian consumers by widening and disseminating knowledge on infant care. The company sponsored the fourth "Plasmon Study Days" conference jointly with the Pediatric Clinic of the University of Messina. The event, which attracted more than 900 Italian pediatricians and a number of specialists from other countries, including the United States, focused on hypertension in the pediatric age group, special diets for infants in poor health, and modern trends in prevention of infectious diseases. At the conference, the Italian Pediatric Society announced the winners of two study fellowships for young pediatricians, which are sponsored by the Plasmon and Diet-Erba product groups individually.

The Italian state television network and a group of independent radio stations in Italy went to PLADA for assistance in developing a series of programs on baby feeding during the first years of life. The Collegium Biologicum Europa awarded PLADA two medals in the "scientific information" area, one directly to the company, the other to its public relations director.

Alimentos Heinz worked with the Venezuelan government for the second year to provide assistance on tomato-planting projects at prison farms.

Heinz-Australia preserved its tradition of rushing assistance to victims of natural disasters. The company shipped 181 tons of baby food to aid victims of a destructive cyclone that hit off the Bay of Bengal, an effort that drew official praise from the Australian Ministry for Foreign Affairs and from relief organizations in India.

Heinz wants to listen.

Business has been urged to take its message to its employees. We believe it is just as important for business to hear what those employees have to say. As in all human exchange, the open ear may be more useful than the ready tongue.

Heinz wants to listen. That desire is what prompted us to hire interviewers and send them across the country, armed with tape recorders, to talk to the people who work for us, to ask about their concerns, their beliefs, their views of the society we share.

The lessons were many, and varied.

The most common theme was optimism about America's future. Some based it upon confidence in the young. Some pointed out that the nation had rebounded from crisis throughout its history. Some cited an unshakable faith that things simply had to get better. The word "pendulum" appeared again and again.

There was no dispute on the proposition that Americans enjoy the world's best environment for freedom and opportunity.

Education ranked high on the list of concerns. Some regretted that they had not had the chance to study more. Many criticized the quality of teaching, and many of those pledged personal sacrifice to further their children's schooling.

Almost all considered themselves members of the middle class, which they perceived as being squeezed between the rich and the poor. (Interestingly, their definition of that group covered a range of $10,000 to $60,000 in annual income.)

A fair number deplored big government and suggested that the only alternative is the assumption of greater responsibility at the community and individual levels. They called also for increased corporate involvement in the quest for a society more congenial to human aspirations.

We found a high level of sophistication on economic issues. For a large number of the interviewees, inflation headed the roster of national problems.

Many agreed on the need to support the underprivileged, but some complained about "welfare cheaters." There was evidence of a troubling pull between compassion and resentment.

Other topics surfaced repeatedly—women's rights, the legalization of marijuana, the Panama Canal, the importance of the family, America's changing role, for better or worse, in international affairs.

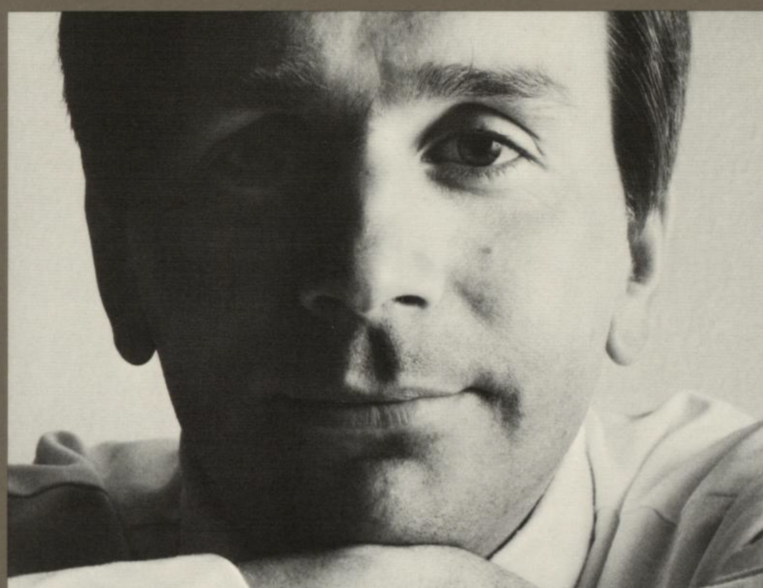
Of those who broached the subject, most expressed satisfaction with working conditions at Heinz. Several wished for better communication between management and employees. We take the message to heart, and hope this special section of our annual report will be seen as an encouraging step in that direction.

Two things need to be said.

First, the eleven employees whose words appear in these pages were only a fraction of those interviewed, perhaps representative but by no means offered as anything more than a sample.

Second, limitations of space made it necessary to condense hundreds of pages of transcript. We believe the excerpts represent the best of what was revealed in interviews that sometimes lasted for two or three hours each.

We now step aside and let our employees speak for themselves, hoping you will find their expressions as stimulating as we did.



"They didn't know fractions particularly well, and here I was trying to teach them about the Federal Reserve Bank."

Sam Pease
Product manager-vinegar
Heinz U.S.A.
Home: Ben Avon Heights, Pennsylvania

"I volunteered to teach economics one day a week to ninth-grade students. I was going to be the guy carrying the free enterprise banner, so to speak. These were inner-city kids. They didn't know fractions particularly well, and here I was trying to teach them about the Federal Reserve Bank. I was heartened by some of them. You find flashes of interest, and you play to those. Everybody knew what profits were—as they put it, 'what's left over after you've paid off all the bills.'"

"You asked me about mandatory retirement. I know some solidly great people in the Heinz kitchens. Why in the hell should we lose them? In terms of making positions for people coming up, that's the people coming up's problem, not the people who are already there."

"I think the best way to pay for schools is a voucher system. If one school has a better reputation than another school, I want my kids to go there. You can just bet your bippy the teachers' unions are going to fight that. Well, why should they have security? I don't have security."

"I'm not against good lobbying from any corner. The unions have been absolutely excellent at it. They ought to be commended, because they did a good job."

"I'm a little worried about detente. Eastern Europe has more tank forces than ever. Our Navy is very antiquated. Those tin lizzies, some of them you could put your foot through the bottom. But I don't particularly worry about superiority in the sense that we've got this huge nuclear arsenal. I'm worried more about the little inroads the communists are making in western Europe."

"I may sound pessimistic, but I have faith that it is going to work out. There are a lot of great people in this country. There are superintelligent people in this country. I mean, there are a lot of basically down-to-earth people in this country who care about it."

"'You should pray to Father Stalin. That's the man who's going to take care of you.'"

John Kiekisz
Administrative manager-Chicago office and warehouse
The Hubinger Company
Home: Wood Dale, Illinois

He was 11 when his family left the Ukraine in wartime 1944, but the memories still pervade his thoughts.

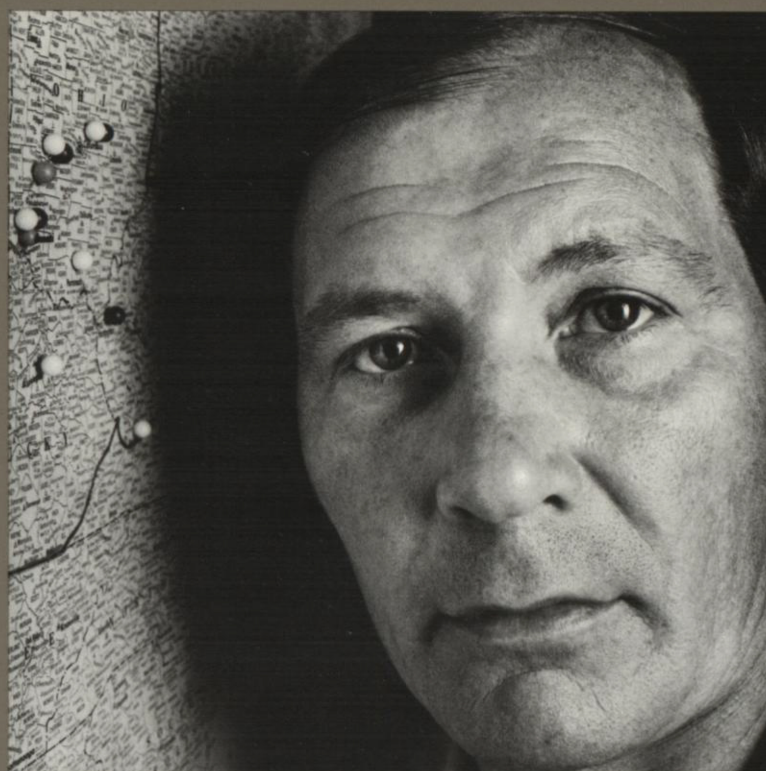
"There was no point for us going back. The Russians would have probably thrown us in jail the first day, because they felt if you love your country, you shouldn't leave your country, you had to be there to protect your country, although we had no choice in the matter. Many committed suicide rather than go back. A lot of people did go back, and of course they are not around today."

"The teacher would say: 'There's no God. I'll prove it to you. Let's everybody pray to God to give you something to eat.' So we're all praying, and she says: 'See? Nothing happens. Now let's pray to Father Stalin. Let's see if he can do anything. O, Father Stalin, give us something to eat.' Then we get our own sandwiches back. The only thing is I get somebody else's, because all the bags are mixed up. So she says: 'See? You shouldn't pray to God, you should pray to Father Stalin. That's the man who's going to take care of you.'"

The Nazis were hardly better. "They took us to a camp about 80 miles from Munich. I was cleaning up their mess and the washrooms and everything else. In the winter months, there were four of us about the same age who had to load coal, and let me tell you, for four 11-year-old boys to unload a boxcar of coal in one day, it wasn't easy. My mother, she almost died, because she was working much harder than I was, but she was eating half of her portion and the other half, she would divide it between myself and my brother."

"The first suggestion for President Carter is I'm against this marijuana and dope thing. My daughter, when she started going to school here, she had many friends. Now, out of the whole school, she only has one. Ninety percent of those children are smoking pot, and she, the poor thing!"

"Some of the laws are made to protect the guilty ones. You shouldn't be afraid of walking on the street without some guy jumping on you and cutting you to pieces and six months later the judge lets him go so he can do it to somebody else. But all in all, it's a wonderful country. It's the best in the world to live in."



Kathy Shaw

"I don't want anyone helping me to my American dream."

Kathleen Shaw
Administrative secretary
Ore-Ida Foods
Home: Boise, Idaho

"There is a sad lack of morality in the U.S. and I think that is our greatest problem. People my age do things that just shock me. I would never be caught dead in a halter top. Little kids, even in grade school, are smoking pot. I'm definitely old-fashioned. I would have liked to live when my great-grandfather lived. People basically were more wholesome, and we were sounder as a country."

"I have no confidence in my generation, my peer group. That's part of the reason I like to be very self-sufficient. Now, I don't think the generation before mine has done a particularly terrific job in a lot of areas and I don't think mine is going to do any better. Several people who graduated with me are really illiterate, and I mean truly. The general flavor of the educational system has deteriorated. The quality isn't there, the way it used to be."

"I wouldn't get caught dead on food stamps or welfare, and neither would my father. We'd rather die. I would find another way. I can get a job somewhere, I'm sure, that would put food between my teeth, and find some way to get a roof over my head. I don't want anyone helping me to my American dream. If I'm going to do it, I'm going to do it on my own."

"I don't care for all the governmental regulations. I thoroughly resent having Social Security tax taken out of my pay check. I feel that, as a rational person, I'm going to be able to make sure that I've provided for myself, if and when I'm forced to retire."

"As much as I dislike pornography, I don't think it's the government's place to come in and run the lives of Americans. People should have their right to choose what they want to do and see. On the other hand, I don't think it's a good idea to have little kids picking up magazines and seeing what they can see. It is a very delicate area."

"There's a lot of good about life in this country. You are allowed to choose what you want to do and do it fairly free from botherance, annoyance. I think it's the best country to live in. You have your freedom, mostly."

"We're a massive society with a massive government. It's easy to fall into the cracks."

Rod Kisich
General manager-logistics
Star-Kist Foods
Home: Long Beach, California

"The old work ethic was a simple formula that produced a lot of results. It may not have guaranteed a happy life for every participant, but it did solve a lot of problems for society as a whole. Today, you have more free minds groping around, taking that one opportunity in life. As an employer, I find young people good workers, serious but also living for the now. It's good to be conservative and not go overboard, but you might find out that you've postponed your whole life."

"Much of the government's aid to cities has not been successful. Downtown areas are sacrosanct. Well, the city may not be the thing it was years ago. You've got the sprawling megalopolis, the vast area from Los Angeles to San Diego and the corridor from Boston through the Middle Atlantic. Who's to say that within these you need these little islands of monstrous buildings? How do they really fit in?"

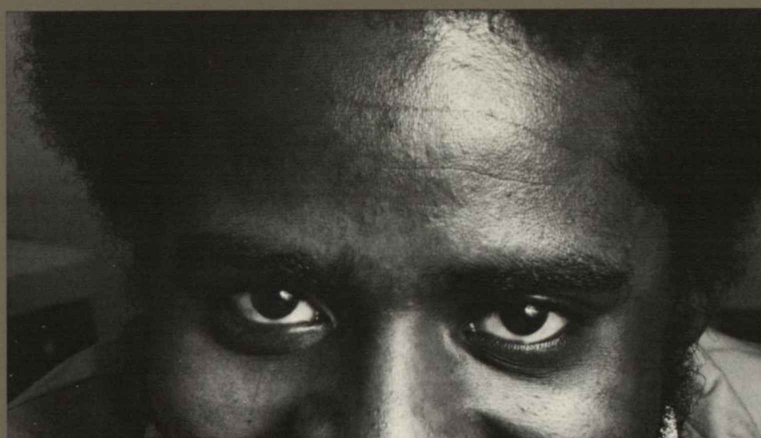
"I think about the sheer size of the management task required to run a country this large. People feel alienated. They don't feel represented. A lot of this has to do with the fact that we're a massive society with a massive government. It's easy to fall into the cracks."

"We're very close to having to guarantee such things as homes and jobs and medical care. We may collectively decide that we can't stand to have a person suffer. What I'm alarmed at is the possibility of having our liberties curtailed. It won't happen if the people have a true awakening. Not all trends persist forever. People can change. Free countries can change."

"The way it's going, with inflation and taxes, we're becoming progressively poorer. It's creeping up. It's not a realization that hits everybody at the same time. It may all of a sudden dawn on you when you have to replace your seven-year-old car. At least, people are aware of how it works now. Politicians underestimate our economic literacy. People understand the international balance of trade. The average guy on the street understands why the price of gold does what it does. I don't think these are arcane subjects."

"Think of mainland China, with its 800 million people. It's a fantastic achievement that they even have a thing called a central government. All right. If we're all going to live in a beehive, where everything is meticulously organized and there's no freedom of expression, you can do a lot of things. All the dictatorships of all time have been more efficient at first. There are always short-term gains to highly structured situations. I vote for not paying the price of that."

Rod Kisich



Charles A. Harris

"'Hey, I got a bunch of concerned parents and I have their kids in my classroom and I think I better go back and get my books.'"

Charles A. Lewis
Team co-ordinator
Heinz U.S.A.
Home: Atlanta, Georgia

"Education has to be where I have my strongest feelings. The lack of it shows up in later years. We don't spend enough money or time on it. We are moving towards an age where technical studies should be just as much a part of the everyday curriculum as the social sciences."

"I grew up in an all-black neighborhood and then, in high school, in the most impressionable years, I transferred to a predominantly white environment. It was a very positive change, as I look back on it now. But the government stayed in probably a little too long, and that's how the busing issues came about. I personally feel neighborhood schools are more ideal than mass busing."

"If you want better teachers, you will get involved. Sit in a class and see the teaching process. And then that instructor is going to say, 'Hey, I got a bunch of concerned parents and I have their kids in my classroom and I think I better go back and get my books.'"

"The League of Nations supposedly fell in because the U.S. decided to be neutral. Now the United Nations, with the U.S. as a member, is being neutralized because of the Third World countries and the communist nations having as much input and influence as us. So we are participating now and we are neutralized again. Take Africa. We should be playing a different role there, but we are sitting back and saying we don't want another Vietnam. You have to take a stance, in my opinion. No clear, definite understanding of what your position is hurts you more than it helps."

"Both political parties are being watered down. People are looking at them and saying: 'There's not really that much difference between them. Do we really need two political parties?' I think people are developing political views away from those two parties."

"We have too much government because we give up our responsibilities. We want to cut down on crime, but we don't want to participate in doing the things that will cut it down. We hire someone to take care of this. Who do we hire? The government employees."

"I don't think it is so wrong for a corporation to make a political contribution. Who makes up the corporations? I think individual taxpayers. The large corporations are made up of employees, of the everyday people. They have to pay attention to world affairs, national affairs, and try to have some input."

"There won't be 100 years to correct any error we make."

Robert Lamm
Quality control shift supervisor
Ore-Ida Foods
Home: Parma, Idaho

"Information is being compiled at such an incredible rate that single minds are not going to be able to comprehend enough to analyze our situation. We're going to be much more machine-dependent because things are changing faster than man can learn. We have worked increasingly rapid changes upon the environment. We are not physically able to adapt that fast. There won't be 100 years to correct any error we make. There's going to be 15 years. Maybe in 30 or 40 years, in the same situation, there will be only five years for us to adapt and find the correct solution."

"If the government ever had to show a profit, what the hell would they do? In the military, waste is phenomenal—14 forms to let someone know you're going to the rest room. If capitalism is going to work, we have to pass on big business procedures and, yes, harshness of heart, to some of the bureaucracies."

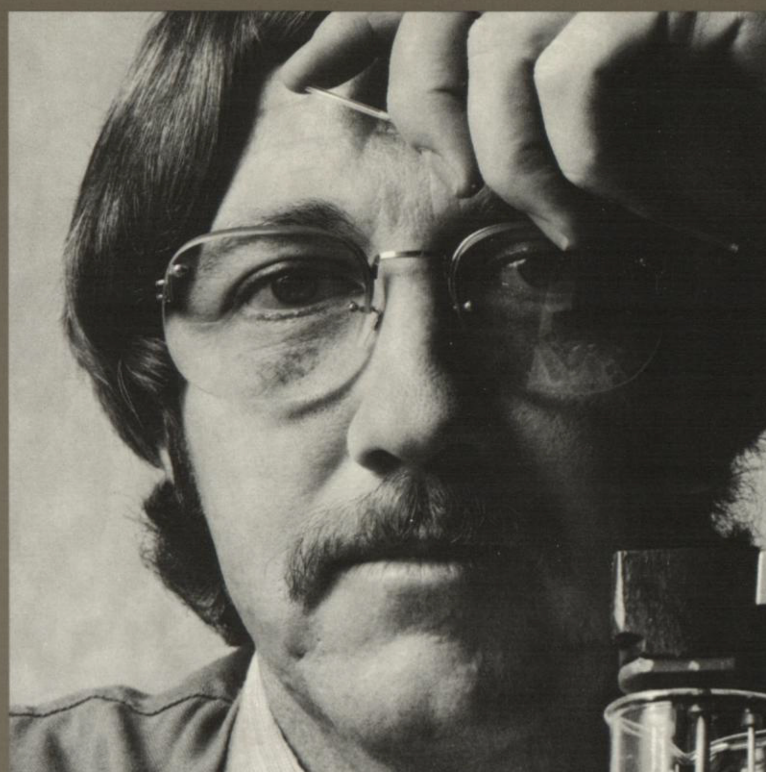
"I didn't feel like we belonged in Vietnam. The people I had a chance to talk with there had been involved in the situation so long that any idea of peace or right and wrong politics was divorced from how they thought. They were involved in existing from day to day. After 20, 25 years, however long, the adults didn't remember that much of the situation, or it was so far back in time it wasn't relevant."

"We're maturing to the point where we can say to a country like Panama, 'We know you're making threats, but we feel that we are strong enough to deal with you without resorting to physical measures.' We're going to have to be pushed around, but we'll have to be more mature, more analytical of the situation in essence, thinking further ahead."

He has bought 40 acres of land never farmed before and so far has almost half of it under cultivation in alfalfa.

"I feel that I'm taking this out of weeds, making something out of it. I like to stand and see where the fox den is over there, where the pheasants are nesting. After I got out of the service, I didn't want the kind of corporate picture where politics were a piece of the action, rather than productivity."

"A person has to be somewhat optimistic that everything will continue on. Man is going to have to adapt more and faster than he ever has before. Hopefully, it won't be a severe back-to-the-earth regression. It will be an adaptation to a much more technically oriented life, where man can exist on the raw materials that are available."



Bob Lamm

Dorothy E. DeFoor

"They turned us down because we were women and they didn't have any bathroom facilities for us."

Dorothy De Foor
Microbiologist
Heinz U.S.A.
Home: Covington, Georgia

She speaks, not without smiling, of the difficulties that face women in certain occupations.

"Now we are getting down to the fun part. The National Science Foundation was looking for people who might be willing to go to Antarctica, and we applied. They turned us down because we were women and they didn't have any bathroom facilities for us on the shore. They said if we redirected our proposal to apply to shipboard, we might have a chance to go on a ship that regularly worked in Antarctic waters. So we did. We were at sea for two months without seeing land. This was pretty hard physical labor, because working on the decks of ships is strenuous, but it was nice and I enjoyed every second of it."

"I guess maybe the part of the taxes that I resent more than any other part are inheritance taxes, and this is because it comes close to home. My dad was in the grocery business for 60 years. He was a trusting soul, and maybe he didn't have the sort of legal advice he should have had. It took us five years to settle this thing, and you would not believe the amount of inheritance taxes we had to pay on money that he had made by getting up at three o'clock in the morning and buying his produce fresh for the day and working all day long until seven or eight o'clock and coming home, eating his dinner and going back to the store and working again. Then we turned around and literally handed a big chunk of it to the government."

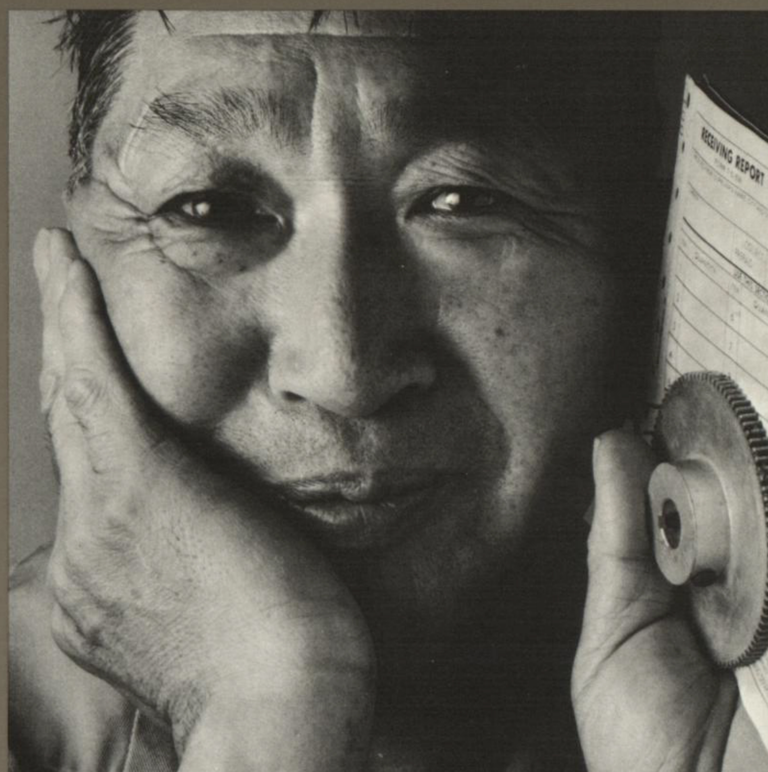
"There is nowhere else in the world that has the standards of living that we have. When I was working at Georgia Tech, I had a woman visit me, a medical doctor from the Soviet Union. I invited her to my home, a social thing. She opened the refrigerator and looked in. She went through the entire house. She looked through all the bureau drawers. She went through all the closets, everything. As I was a technician and she was a doctor, she expected what I had to be far less than what she had, but it was not. She was astounded at the amount of food we had, at the way you could go into a supermarket and buy anything on earth that you wanted to buy, and it was all there in this great abundance. And you didn't have to stand in line to buy anything."

"I wouldn't live anywhere else. And as mad as we get at the government, we still have the right to get mad and speak out our piece. That's what you're supposed to do when you're an American, isn't it? Yes. Fuss about it."

"When you get told that your citizenship isn't worth anything, what have you got? Nothing."

Harry Takami
Parts room foreman
Ore-Ida Foods
Home: Ontario, Oregon

Like thousands of other Japanese-Americans, he was evacuated from the West Coast during World War II and placed under internment, which he endured for two years before being drafted into the Army. "What they taught us in school and what they did to us in the war, they don't jive. They taught us our rights. We learned all that Bill of Rights, everything, in school, and when the war came along, they told me I had no rights. Your birth certificate doesn't mean anything. When you get told that your citizenship isn't worth anything, what have you got? Nothing." **One son is a West Point graduate, a captain and leader of a ten-helicopter unit. Another works for the FBI. "They were born after the war was ended, during peacetime. They don't know the feeling we went through. Well, it's their life. They got to live, so I just let them go or do whatever they want to do." He and his wife went to West Point for their son's graduation. "We learned to separate. That was our life. Our son, we were proud for him."** "What's done is done. It just has to wear off. That's about it." How long does it take for it to wear off? "Maybe a lifetime." **"There will always be corruption in government. If there is money laying around, someone will take it, that's for sure."** "The judges are not doing what they are supposed to. They let them go off easy. I still believe, an eye for an eye." Would the death penalty deter crime? "Should help. At least, we don't have to pay the taxes to keep them alive." **"What do we go vote for if they are going to have an electoral college? It seems like how we vote doesn't affect them any. Sometimes the votes are in before we get to vote. You know who is the winner already."** "I have faith in the next generation. That's the reason I say about this Panama Canal deal, 'Let the next generation make up their mind.' There is going to be lots of bright boys among them. I think they are smart enough to know what they are going to do with it."



Harry Y. Takami

Mary Ann Konefal

"It used to be the guy who hollered the loudest would get in as an officer."

Mary Ann Konefal
Desk worker-plant security
Heinz U.S.A.
Home: Ross Township, Pennsylvania

She was the first woman president of the 2,800-member Heinz Credit Union and recently won election to the board of her union local. "I try to tell the truth, that sometimes we're going to lose a few cases and sometimes we're going to win. I say, 'Hey, wait a minute. This is where you're earning your living. The management is not your enemy.' They're getting more sophisticated people in the union. It used to be the guy who hollered the loudest would get in as an officer. Today, they have a lot of education. You're really getting devoted people that want to improve conditions for the workingman."

Her father, an immigrant from Czechoslovakia, worked in the coal mines. "I know from his experience how they had to fight for their rights. You had to buy at the company store and people actually spied if you went shopping somewhere else. Now my father has a real good income, but he has the black lung. He laughs, says, 'You know, I used to cough for nothing, and now they pay me to cough.'"

She believes strikers deserve government help. "They're just as good as those lazy bums that are collecting welfare all year. Would you see this man on strike have his kids go hungry? No, you wouldn't. We're too rich of a country to let anyone go hungry. Like our company, when there's a disaster anywhere, earthquake, anything, our company is the first one loading up the baby food to give away. So why couldn't the striker have the same benefits?"

"I think they ought to legalize marijuana, as long as it's just marijuana. It's no worse than drinking. But these people that have brilliant minds in chemistry and they make these terrible pills for the kids to take, my ears really turn red. I know one kid who took LSD, he was eating the acoustic ceiling and everything. They are ruining a lot of young lives. They should be punished to the fullest extent."

"Things are getting better all the time. Look at people traveling today, like from my little home town, going to Hawaii. I'm not talking about rich people. I'm talking about the working person. Things are getting better, as I say. Everything simmers down, everything gets together and everything works out real good. Just have a little patience. You'll see."

"You must not underestimate the American."

Norma A. Marich
Manager-sales services
Star-Kist Foods
Home: San Pedro, California

"I'm not married, but I respect the woman who chooses to stay home. I can relate to my own mother. She raised six children, four of her own and a younger brother and sister after her mother died. She helped I don't know how many families in Europe after the war. She's a very vibrant person. She always has to have a project of some kind, but it's always home-oriented. I respect any woman who feels that her greatest priority is creating a healthy atmosphere at home for her children and her husband. There's nothing wrong with that. To build a career and be a mother and housewife at the same time, you need Herculean strength. Something has to give somewhere."

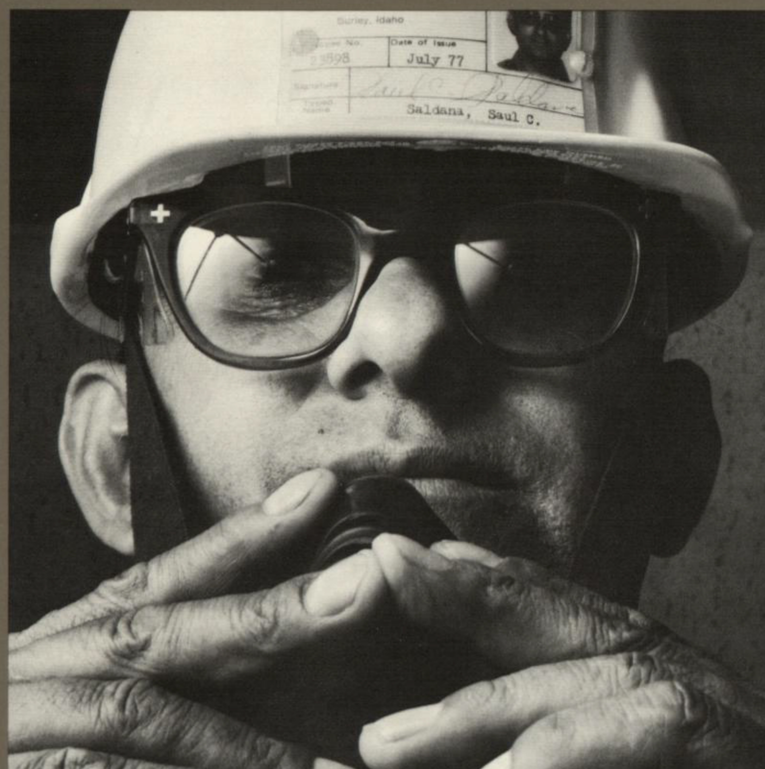
"Women my age are on the fringe of the equal rights movement. It's really for young women coming up in the future. Still, a curious thing, two or three years ago, my sister and I applied for a loan to buy a condominium. The two of us, with our combined income, were not considered a good credit risk. Together, we made more than a man raising a family. They finally approved the loan—but we were told up front that they wanted my father to cosign. Can you imagine? At our age!"

"On a trip to Europe, I met people who sympathized with communism and gave me terrible arguments about America. They said that we would be a second-rate power, that Russia would bury us. I told them: 'You must not underestimate the American. You can throw mud in his face, you can insult him, you can do these things and he's very polite up to a point, and then he becomes a very strong power. Don't push our American people too far, because they will react.'"

"My brother-in-law was appointed director of the Peace Corps, and then he was an Under Secretary of Commerce. Before that, he ran for Congress, and was defeated. I learned something ringing doorbells, but I guess there weren't enough of us. There's a tremendous amount of volunteer effort that possibly isn't recognized. If the parties didn't have grass-roots people who are willing to do so much—they are the ones who put people in office."

"I have faith in this country. My father comes from a town on the Adriatic coast, 17 centuries old. It has survived all sorts of sacking, by the Venetians and the Turks and what have you. We Americans are going to continue to survive. We have to have faith in the younger people to carry on."

Norma Minick



Saul Saldana

"I believe that if we ask God for things and we're living a good Christian life, He answers through prayer the desires of your heart."

Saul Saldaña
Sanitation lead man
Ore-Ida Foods
Home: Burley, Idaho

At the age of 13, he moved out of Texas with his family—ten in all—to work in the cotton fields. They migrated on in the wake of Wisconsin beets and cherries, Ohio tomatoes and Nebraska potatoes. "We saw there was better means of living here in Idaho, so we just more or less decided to stay. My father, before he died, bought 60 acres, then another 80 acres, and started planting sugar beets. He bought a place and went to farming and he finished the house, and the house is all brick. It's got seven bedrooms in it, all carpeted. My youngest brother is now a farmer. He's got all his equipment paid for. He's got two tractors that are worth $13,000 apiece. He farms over 1,000 acres. I would be willing to say without the shadow of a doubt that the American system has been good to us. The opportunity is there if we want to go ahead and better ourselves."

He is a vocalist in a gospel group and a member of the Spanish Assembly of the Pentecostal Church. "God's been good to us. He's helped us along. We've seen a lot of people go to our meetings, so it's been good that way. I know He gave me the wisdom and the understanding to do things. I believe that if we ask God for things and we're living a good Christian life, He answers through prayer the desires of your heart. He will give you everything you desire as long as it's not immoral."

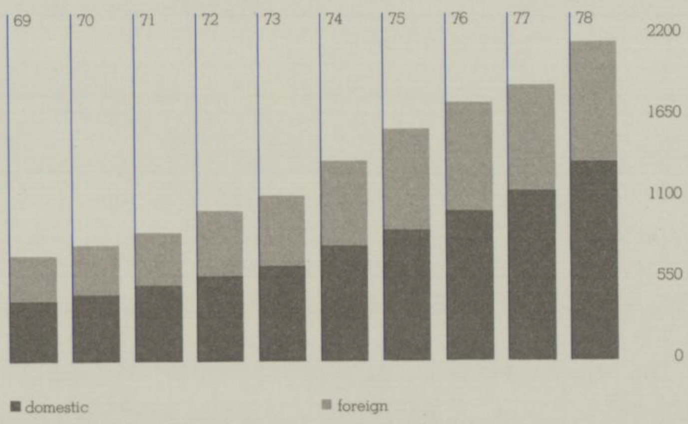
"I think the unions themselves, out of their own funds, should be self-supporting, so that when their members go out on strike they don't have to beg anybody, welfare or anybody else. I'd say if I deliberately go on strike because I want more money, I don't think that I should be getting food stamps."

He talks about the Panama Canal. "We Americans have never just really gone out and deliberately destroyed a nation just to overtake it. That canal, it's just like someone owning something in the United States. If it's in the United States, it belongs to the United States. If it's in Panama, and as long as they don't use it in aggression against the United States, it's in their country, it belongs to them."

"I'm glad that this interview took place, because it took me back to my childhood days and the hard times that I went through. We used to be days out in the fields when we had very poor housing to live in, cold, not the right amount of heat, sanitation. I look at then and I look at now, and I thank God that He's permitted me to—I feel that in my lifetime, from then to now, I have accomplished a lot, really."

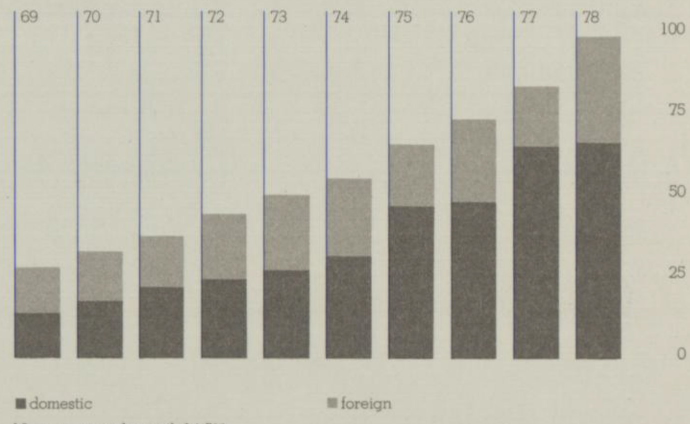
Financial Charts

Sales
in millions of dollars



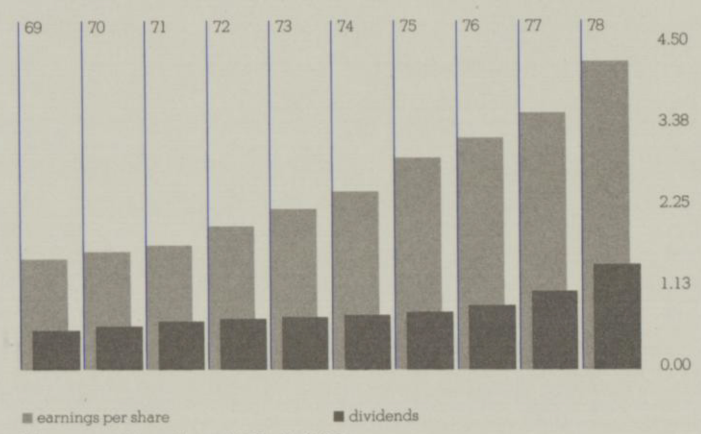
10-yr compound growth 12.4%
5-yr compound growth 14.0%

Income
in millions of dollars



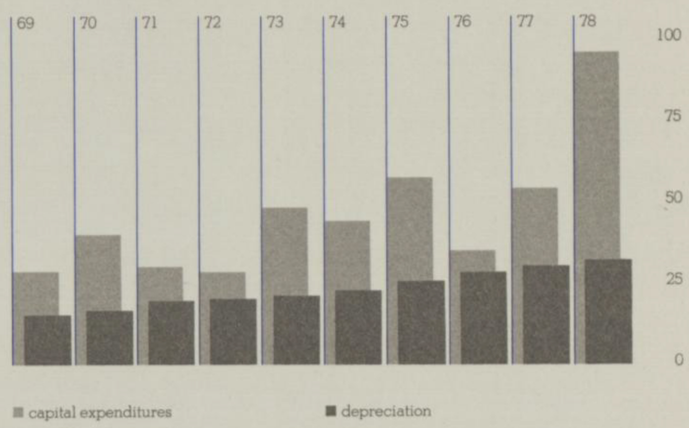
10-yr compound growth 14.5%
5-yr compound growth 14.7%

Earnings and Dividends per Common Share
in dollars

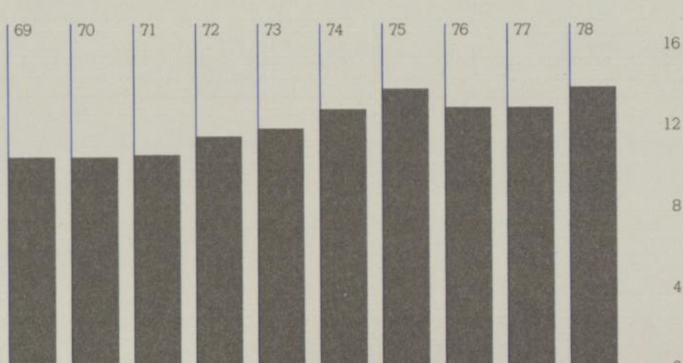


10-yr compound growth: eps 11.7%, div 12.2%
5-yr compound growth: eps 14.0%, div 15.2%

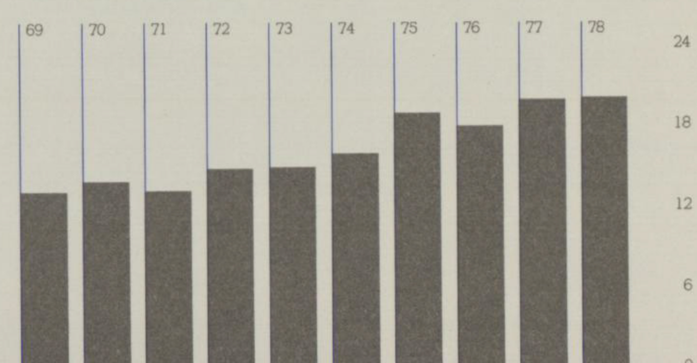
Capital Expenditures and Depreciation
in millions of dollars



Return on Average Shareholders' Equity
in percent



Return on Average Invested Capital
in percent



Responsibility for Financial Statements

The company has prepared the accompanying consolidated financial statements and related information included herein for the years ended May 3, 1978 and April 27, 1977. The opinion of Peat, Marwick, Mitchell & Co., the company's independent certified public accountants, on those financial statements is included. Management has the primary responsibility for the integrity of the financial information included in this annual report and to ascertain that the financial information accurately reflects the financial position of the company and its operating results. Such information was prepared in accordance with generally accepted accounting principles appropriate in the circumstances, based on best estimates and judgments and giving due consideration to materiality.

The internal control system maintained by the company is designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce records adequate for preparation of financial information. There are limits inherent in all systems of internal control based on the recognition that the cost of such systems should not exceed the benefits to be derived. The company believes its system provides this appropriate balance.

The internal control system is augmented by a corporate internal audit staff that has direct access to the Audit Committee of the Board of Directors and meets periodically with that committee. The company's Audit Committee is composed entirely of outside directors. The members of the Audit Committee are identified in the listing of Officers and Directors elsewhere in this annual report. The Audit Committee meets periodically with the company's independent public accountants, management and the internal auditors to review the work of each and to satisfy itself that each is properly discharging its responsibilities. The independent certified public accountants have free access to this committee to discuss the results of their audit work and their opinions on the adequacy of internal financial controls and the quality of financial reporting.

General

This Financial Review and Management's Analysis contains a discussion of operational results for 1978 compared with 1977, and for 1977 compared with 1976. It includes explanations of variations in selected accounts within those years, a discussion of significant elements relating to the company's financial position, and other financial and operating information. The comments that follow in this section should be read in conjunction with the Consolidated Financial Statements, Notes to Consolidated Financial Statements and the 10-Year Summary of Operations and Related Data.

The current fiscal year, 1978, was a 53-week year, while the prior year, 1977, included 52 weeks. This factor, while not significant, should be considered in reviewing the following material.

Certain reclassifications have been made to amounts shown for 1977 to conform with the presentation used in 1978.

Sales

1978 vs. 1977: Sales for 1978 amounted to $2.2 billion, an increase of $281.2 million, or 15.0%, over last year's sales of $1.9 billion. This marks the 15th consecutive year of sales growth, with sales doubling since 1972. The annual compound growth rate of sales has been 12.4% for the past 10 years and 14.0% for the most recent five-year period.

Sales by domestic companies, including those in U.S. possessions, were $1.3 billion, an increase of 14.4% over last year's domestic sales of $1.2 billion, and currently represent 62% of consolidated sales, the same as in 1977. Sales by foreign affiliates amounted to $814.5 million, an increase of 16.2% over last year's sales of $700.9 million. Foreign affiliate sales were 38% of consolidated sales in both 1978 and 1977. Fluctuations in foreign currency exchange rates did not have significant effect on sales during the current year.

Higher volume accounted for approximately one-half of the increase in domestic sales, with the other half attributable to higher prices, many of which were put into effect in the latter part of 1977 to offset increased costs. Higher prices accounted for the major portion of the sales increase of foreign affiliates as inflationary cost pressures continued at rates higher than those in effect domestically. Volume improved in most foreign countries where the company operates. The United Kingdom was an exception.

1977 vs. 1976: Sales in 1977 amounted to $1.9 billion, an increase over the previous year of $119.1 million, or 6.8%. Higher volume accounted for approximately one-third of the increase in domestic sales, which included the results of Hubinger for the full year in 1977, compared with six months in 1976. Foreign affiliate sales amounted to $700.9 million in 1977, a decrease of 3.0% from 1976's $722.5 million. This decrease was the result of lower exchange rates used to translate foreign sales, which adversely affected reported dollar sales by $105.4 million, as foreign affiliates registered moderate sales volume gains.

Cost of Products Sold

1978 vs. 1977: Cost of products sold amounted to $1.4 billion, an increase of $177 million, or 14.0%, from last year. The gross profit percentage improved from 32.5% in 1977 to 33.1% this year and continues to be favorably affected by increased volume, effective cost control programs and better sales mix. However, higher costs of basic ingredients, packaging materials, utilities and labor persist.

1977 vs. 1976: Cost of products sold was $1.3 billion, an increase of $34 million, or 2.8%, over the amount reported for 1976. The gross profit percentage of 32.5% in 1977 represented an improvement over the 29.8% for 1976.

Selling and Other Expenses

1978 vs. 1977: Selling and other expenses amounted to $525.2 million, an increase of $91.5 million, or 21.1%, over last year's $433.7 million. This increase is attributable primarily to higher selling, distribution and marketing costs. Selling and distribution expense rose by $37.5 million, primarily because of higher sales commissions, freight, brokerage and warehousing costs. Advertising expense increased by 44% over last year's amount and reflects both the company's plan over the past two years to invest heavily in new and existing products, primarily in the United States, and the effects of inflation on media, magazine and other forms of promotion.

1977 vs. 1976: Selling and other expenses rose to $433.7 million, an increase of $56.1 million, or 14.9%, over 1976's amount. Nearly three-fourths of this increase was due to higher advertising expense. Also contributing to the rise in selling and other expenses were increased storage and freight, selling commissions and other expenses associated with higher volumes.

Provision for Disposal of Facilities

During 1978, a provision for $10.6 million (before income tax) was made to reflect the loss expected on disposal and relocation of certain productive facilities. The disposal of these facilities should be completed sometime during 1979. Tax benefits of $4.9 million relating to the disposal have been included in the provision for income taxes.

Other Income (Deductions)

The major items included in this category for 1978 and 1977 are presented in the table below.

In thousands	1978	1977
Interest income	$ 8,215	$ 9,753
Minority interest	(628)	(1,430)
Foreign currency adjustments	6,729	(10,239)
Other items, net	(1,779)	356
	$12,537	$ (1,560)

Interest income represents earnings on investments located primarily in United States possessions. The decrease in interest income reflects lower interest rates offset by a slight increase in average investments during the year.

The decrease in income allocable to minority interest this year is attributable to the purchase by the company of all of the common shares of its United Kingdom affiliate held by outsiders. Additional information on this transaction is contained within the section entitled Purchase of United Kingdom Minority Interest.

The company maintains significant operations in various foreign countries. Changes in foreign currency exchange rates influence earnings in two ways. First, increases or decreases in foreign currency exchange rates from one year to another result in an increase or decrease in the dollar values of the foreign affiliates' balance sheets. Foreign affiliates' balance sheets consist of both monetary and nonmonetary assets and liabilities. The monetary assets and liabilities are translated at year-end exchange rates. Therefore, as a foreign currency exchange rate rises (falls) in relation to the U.S. dollar, the affiliate's monetary assets are increased (decreased), creating an exchange gain (loss). Nonmonetary assets and liabilities are translated at historical exchange rates. The foreign currency adjustment gain of $6.7 million for 1978 results from generally higher

rates of exchange used to translate foreign affiliates' balance sheets this year as compared with last year. The foreign currency adjustment loss of $10.2 million for 1977 is the result of the use of lower rates of exchange to translate such foreign affiliates' balance sheets at the end of 1977 compared with those in effect at the end of 1976.

Second, changes in foreign currency exchange rates affect the translation of foreign affiliates' income statements. Average exchange rates for each year are used to translate foreign affiliates' income statements for that year. Changes in the average exchange rate in effect from year to year increase or decrease the amount of U.S. dollars represented by the foreign affiliates' income statements. The effect of changes in such average rates of exchange from 1977 to 1978 was insignificant. However, during 1977, lower average rates of exchange in effect during that year as compared with 1976 reduced consolidated net income by $3.6 million.

Because inventories, as a nonmonetary asset, are required to be translated at a historical rate of exchange, the value of foreign inventories may, from time to time, be different from the current rate at the end of the particular year. At the end of 1978, foreign inventories, valued at historical exchange rates, were $2.3 million higher than current exchange rates. The foreign currency adjustments reflected in other income (deductions) include the effect of valuing inventories at historical rates rather than current rates. During 1978, unrealized gains amounting to $10.7 million were attributable to the valuation of inventories at historical exchange rates, compared with an unrealized loss of $15.6 million in 1977. Realized exchange gains and losses were not significant in either year.

Interest Expense

1978 vs. 1977: Interest expense for 1978 amounted to $18.9 million, an increase of $2.6 million, or 15.5%, over last year's amount of $16.3 million. This higher level of interest expense was due to an increase in average short-term borrowings from $63 million last year to $70 million this year and an increase in the average interest rate on such debt from 7.7% to 9.2%.

1977 vs. 1976: Interest expense declined by $6.6 million, or 28.7%, from the $22.9 million reported in 1976. This decline resulted from reduced average short-term borrowings, down from $114.9 million in 1976, and a reduction in the average interest rate from 9.4% in 1976.

Provision for Income Taxes

The provision for income taxes for 1978 amounted to $69.6 million, as compared with $71.1 million in 1977. This represents a decline of $1.5 million, or 2.2%. The company provides for taxes at the statutory rates in effect on pretax income reported for financial statement purposes in the various countries in which the company operates. Although earnings continue to improve in higher tax rate countries, the actual provision for taxes this year was lower than last year, as was the effective tax rate—41.2%, compared with 45.9% in 1977. The lower effective tax rate reflects an increase in the investment tax credit in the current year and the variation in the unrealized foreign currency adjustment of $17 million between 1978 and 1977 for which there are no tax effects.

A more comprehensive discussion of income taxes appears in note 6 of the Notes to Consolidated Financial Statements.

Net Income
1978 vs. 1977: Net income for 1978 amounted to $99.2 million, an increase of $15.4 million, or 18.3%, over last year's net income of $83.8 million. Net income has grown at an annual compound growth rate of 14.5% for the past 10 years and 14.7% for the past five years.

Domestic net income for 1978 was $66.3 million, up slightly from last year's $65.4 million. Domestic net income represented 67% of consolidated income, compared with 78% in 1977. Excluding foreign currency adjustments and the losses on disposal of operating facilities, domestic income would have been approximately 70% of consolidated net income for both years.

Foreign affiliates contributed $32.9 million in net income for 1978, compared with $18.4 million in 1977. This year's foreign net income includes $6.7 million of favorable foreign currency adjustments.

1977 vs. 1976: Net income for 1977 amounted to $83.8 million, an increase of $9.8 million, or 13.3%, over the previous year's net income of $74 million. This increase was achieved after the $10.2-million foreign currency adjustment charge in 1977, versus a charge of $0.8 million in 1976.

Domestic net income for 1977 was $65.4 million, an increase of 34.5% over 1976's amount. During 1977, domestic net income represented 78% of consolidated net income, compared with 66% in 1976.

Net income of foreign affiliates amounted to $18.4 million for 1977 after a $10.2-million charge for foreign currency adjustments, compared with net income of $25.3 million in 1976. Excluding this charge, foreign affiliate net income would have risen by 9.5% over 1976.

Earnings per Share
1978 vs. 1977: Primary earnings per share for 1978 were $4.25, an increase of 70 cents, or 19.7%, over $3.55 reported in 1977. The annual compound growth rate has been 11.7% for the past 10 years and 14.0% for the past five years, which is consistent with the company's financial objectives for a compound growth rate in earnings per share of 10% to 12% per year. The effect of the company's purchase of some of its common shares as treasury shares late in 1978 did not have a significant impact on earnings per share results for 1978. Fully diluted earnings per share were $4.13 in 1978, compared with $3.47 last year, an increase of 19.0%.

1977 vs. 1976: Primary earnings per share increased by 34 cents, or 10.6%, from $3.21 in 1976 to $3.55 in 1977. The increase in primary earnings per share of 10.6% was less than the increase in net income of 13.3% because of the effect, for the first time, of a full year's dividend requirement on the $1.70 third cumulative preferred stock. Fully diluted earnings per share were $3.47 in 1977, compared with $3.15 in 1976.

Dividends
Common dividends paid in 1978 were $1.42 per share, compared with $1.06⅔ paid last year. Common dividends paid in 1978 represented 33% of earnings per common share, versus 30% in 1977. On an annualized basis, the current quarterly dividend rate of 40 cents per share would result in a payout of $1.60 per share. During 1978, the quarterly dividend paid to common shareholders was increased twice—in October from 30 cents to 36 cents, and in April from 36 cents to 40 cents.

Preferred stock dividends for the year were $3.1 million, as compared with $3.2 million last year. Information on quarterly dividends for both common and preferred stock is presented in the financial review within the section entitled Stock Market Information.

Segment Data

The company is engaged in the manufacture and marketing of convenience food products sold under highly competitive conditions. The company operates principally in one line of business—processed food products—which represents more than 95% of consolidated sales.

The company carries on extensive international operations, and the segment data of the business by geographic area, after the effect of foreign currency fluctuations, is presented in the table below.

In thousands of U.S. dollars	Domestic	Foreign United Kingdom	Foreign Canada	Foreign Western Europe	Foreign Others	Foreign Total	Worldwide
1978							
Sales	$1,335,486	$414,168	$142,573	$142,533	$115,267	$814,541	$2,150,027
Operating income	120,457	31,593	11,988	10,431	11,138	65,150	185,607
Identifiable assets	798,365	280,989	65,821	110,685	77,936	535,431	1,333,796
Capital expenditures	68,920	15,961	3,478	2,780	4,269	26,488	95,408
Depreciation expense	18,067	6,269	2,345	3,521	1,362	13,497	31,564
1977							
Sales	$1,167,872	$353,870	$133,005	$123,862	$ 90,211	$700,948	$1,868,820
Operating income	110,721	32,280	14,819	4,369	10,638	62,106	172,827
Identifiable assets	803,551	229,561	66,716	101,408	73,664	471,349	1,274,900
Capital expenditures	38,265	6,345	4,221	2,327	2,521	15,414	53,679
Depreciation expense	16,023	6,827	2,115	3,381	1,351	13,674	29,697

Quarterly Results

The following table shows sales, gross profit, net income and earnings per share for each quarter of the past two years. Quarterly results have always been influenced by seasonal factors inherent in the company's business, and comparisons between quarters have always been most meaningful when made between the same quarters of different years. The required recognition of foreign currency fluctuations in income has resulted in an additional factor influencing quarterly earnings.

In thousands except earnings per share	Sales	Gross Profit	Net Income	Earnings Per Share
1978 by Quarter				
First	$ 491,469	$156,538	$19,645	$ .83
Second	520,051	169,476	23,613	1.00
Third	523,640	170,621	19,901	.85
Fourth	614,867	214,143	36,012	1.57
Total	$2,150,027	$710,778	$99,171	$4.25
1977 by Quarter				
First	$ 429,560	$129,704	$15,286	$ .64
Second	471,552	140,367	19,924	.84
Third	441,194	137,916	17,334	.73
Fourth	526,514	198,573	31,272	1.34
Total	$1,868,820	$606,560	$83,816	$3.55

Return on Shareholders' Equity and Invested Capital
Return on shareholders' equity was 14.6% during 1978, compared with 13.4% last year and 12.6% five years ago. Return on average invested capital was 20.8% this year, compared with 20.2% during 1977 and 15.3% five years ago. Both of these ratios—return on shareholders' equity, which relates the net income for the period to the accumulated shareholders' ownership investment, and return on average invested capital, which measures the return of pretax income before interest on average debt and equity—have improved over this period, and management continues to emphasize the further improvement in these important ratios.

Capital Expenditures
Expenditures for property, plant and equipment for 1978 amounted to $95.4 million. Expenditures for domestic operations accounted for $68.9 million, or approximately 70% of the total. Last year, capital expenditures were $53.7 million, with approximately 70% for domestic operations.

The Hubinger subsidiary invested $24.6 million toward the completion of the corn grinding and high fructose syrup facility, which is scheduled for completion early in 1979. Other major domestic capital expenditures included the beginning of construction of a new potato processing facility by Ore-Ida in Wisconsin and the expansion of facilities used in the manufacture of frozen cookies and pizza.

Capital expenditures for foreign operations amounted to $26.5 million, up from $15.4 million in 1977. These expenditures included replacement and modernization of existing facilities, production and storage capacity expansion and environmental controls. The majority of these expenditures were made in the United Kingdom operations. These expenditures are generally funded locally by the subsidiaries.

Capital expenditures this year included $7.1 million representing the net value of capitalized leases recorded for the first time in 1978 in accordance with new accounting requirements. For additional information, see note 10 of the Notes to Consolidated Financial Statements.

Capital expenditures related to environmental and pollution control facilities approximated $6.4 million in 1978, compared with $2.4 million in 1977. These expenditures for 1979 and 1980 are estimated to be $4.7 million and $2.7 million, respectively. Compliance with environmental and pollution control regulations is not expected to have a material impact on the company's operations or its financial position.

Working Capital
At the end of 1978, working capital amounted to $445.1 million, a decrease of $27.1 million from last year. This decrease reflects a reduction in cash and short-term securities and increases in accounts payable and accrued expenses partially offset by increases in accounts receivable, inventories and a reduction in the liabilities for Federal and foreign income taxes. The reduction in cash and short-term investments reflects the company's sizable investment in capital equipment, the purchase of the minority interest in the United Kingdom subsidiary and the purchase of treasury shares—all of which are discussed elsewhere in this Financial Review. The increase in receivables and inventories relates to the higher level of sales, while the increased investment tax credit and the manner in which estimated tax payments are made account for the reduction in the liabilities for income taxes.

An analysis of the changes in working capital is presented as part of the Statement of Consolidated Changes in Financial Position.

Financing

During 1978, the company entered into agreements that provide for the borrowing of $5.5 million to be used in connection with facilities at two of the company's domestic operations. These agreements provide for repayments to commence at various dates beginning September 1, 1992 and to conclude in fiscal year 2003. Interest at 5⅜-5⅝% is payable semiannually. At May 3, 1978, the aggregate principal outstanding was $5.5 million. Additional financing activities are described within the sections entitled Purchase of United Kingdom Minority Interest and Purchase of Treasury Shares.

Capitalized Lease Obligations

During the current year, the company adopted Financial Accounting Standards Board Statement No. 13, "Accounting for Leases." Under the provisions of this Statement, the unpaid principal portion of future rental payments on capital leases is shown as a liability. At May 3, 1978, $8 million was included in the Consolidated Balance Sheet for capitalized lease obligations.

Purchase of United Kingdom Minority Interest

During 1978, the company acquired the common shares of its United Kingdom subsidiary previously held by minority interests for $13.5 million. This purchase was financed by sterling debt secured by a U.S. dollar certificate of deposit. For reporting purposes, the certificate of deposit and the sterling loan are offset and are not reflected in either the Consolidated Balance Sheet or the Consolidated Statement of Changes in Financial Position.

Purchase of Treasury Shares

During 1978, the company purchased 500,000 shares of its common stock at an aggregate purchase price of $17.4 million. These shares have been held as treasury stock to be used in connection with the exercise of stock options under the employees' stock option plans and with the conversion of first series third cumulative preferred stock. During the year, 7,520 shares were issued upon exercise of stock options.

Stock Market Information

H. J. Heinz Company common stock is listed and traded principally on the New York Stock Exchange under the symbol HNZ. Approximately 5,000,000 shares of the company's common stock were traded during each of the past two years. The following table shows the dividends paid per common share and the price range of the common stock for each quarter of the past two years. The closing price of the common stock on the New York Stock Exchange on May 3, 1978 was $39.

Common Stock	Dividends Per Share	Stock Price Range High	Stock Price Range Low
1978 by Quarter			
First	$ .30	$36¾	$28¾
Second	.36	37¼	33⅜
Third	.36	36¼	33¼
Fourth	.40	40	33¾
Total	$1.42		
1977 by Quarter			
First	$ .22⅔	$33¾	$29⅞
Second	.27	33⅛	26½
Third	.27	34⅛	27
Fourth	.30	33¾	28
Total	$1.06⅔		

H. J. Heinz Company 3.65% cumulative preferred stock does not have voting rights. Dividends of $.9125 have been paid in each quarter during the past two years.

H. J. Heinz Company $3.50 second cumulative preferred stock has voting rights on an equal basis with the common stock. Dividends of $.875 have been paid in each quarter during the past two years.

H. J. Heinz Company $1.70 third cumulative preferred stock is listed and traded principally on the New York Stock Exchange under the symbol HNZ PR. Approximately 450,000 shares of this stock were traded during 1978, compared with 700,000 shares traded during 1977. Dividends of $.425 have been paid in each quarter during the past two years. Each share entitles the holder to one-half vote. The following table shows the price range of the stock for each quarter for the past two years. The closing price of the stock on the New York Stock Exchange on May 3, 1978 was $33½.

$1.70 Third Cumulative Preferred Stock	Stock Price Range High	Low
1978 by Quarter		
First	$31¾	$28½
Second	33¾	30⅞
Third	33¼	29½
Fourth	33½	28¾
1977 by Quarter		
First	$29⅞	$27¾
Second	29⅜	25½
Third	29½	25⅝
Fourth	31⅝	28¾

The company's capital stock is described in more detail in note 4 of the Notes to Consolidated Financial Statements.

Supplementary Data

(See note 11 of the Notes to Consolidated Financial Statements.)

Maintenance and repair expense increased by $8.1 million, or 13.5%, during 1978, to $68.4 million, from $60.3 million a year ago. Last year's amount increased by 8.9% from $55.3 million in 1976. The increases in both years reflect higher material and wage costs due to the effects of inflation.

Depreciation expense for 1978 was $31.6 million, or $1.9 million higher than the $29.7 million reported in 1977. Depreciation expense in 1977 was up by $1.8 million over $27.9 million in 1976. The increases in both years, 6.3% in 1978 and 6.4% in 1977, reflect the higher base of capital assets resulting from greater capital expenditures. Capital expenditures in 1978 are discussed in more detail elsewhere in this Financial Review.

Payroll tax expense in the current year amounted to $32.1 million, compared with $27.1 million in 1977. This represents an increase of $5 million, or 18.4%. Payroll tax expense last year rose by $2.2 million, or 9.1%, from $24.9 million in 1976. Higher payrolls and higher tax rates account for the increases in both years.

Advertising expenses in 1978 were $121.2 million, an increase of $37.2 million, or 44.2%, over the $84 million reported in 1977. Advertising expenses in 1977 were up by $39.6 million from $44.4 million in 1976. These increases are explained under Selling and Other Expenses on page 46 of this Financial Review.

Statements of Consolidated Income and Retained Earnings

Fiscal year ended	May 3, 1978 (53 weeks)	April 27, 1977 (52 weeks)
Income		
Sales	$2,150,027,000	$1,868,820,000
Cost of products sold	1,439,249,000	1,262,260,000
Gross profit	710,778,000	606,560,000
Selling and other expenses	525,171,000	433,733,000
Operating income	185,607,000	172,827,000
Provision for disposal of facilities	(10,553,000)	—
Other income (deductions)	12,537,000	(1,560,000)
	187,591,000	171,267,000
Interest expense	18,859,000	16,332,000
Income before income taxes	168,732,000	154,935,000
Provision for income taxes	69,561,000	71,119,000
Net income	$ 99,171,000	$ 83,816,000
Per common share amounts:		
Primary	$ 4.25	$ 3.55
Fully diluted	$ 4.13	$ 3.47
Retained Earnings		
Amount at beginning of year	$ 483,746,000	$ 427,356,000
Add Net income for the year	99,171,000	83,816,000
	582,917,000	511,172,000
Deduct Dividends paid:		
On preferred stock	3,147,000	3,166,000
On common stock, $1.42 per share ($1.06⅔ in 1977)	32,143,000	24,260,000
	35,290,000	27,426,000
Amount at end of year	$ 547,627,000	$ 483,746,000

See notes to consolidated financial statements beginning on page 58.

Consolidated Balance Sheets

Assets	May 3, 1978	April 27, 1977
Current Assets:		
Cash	$ 15,894,000	$ 37,140,000
Short-term investments, at cost which approximates market	68,150,000	138,460,000
Receivables:		
Trade	173,277,000	146,782,000
Sundry	21,497,000	19,823,000
	194,774,000	166,605,000
Less Allowance for doubtful accounts	3,988,000	4,091,000
	190,786,000	162,514,000
Inventories	530,443,000	486,990,000
Prepaid expenses	29,819,000	24,089,000
Total current assets	835,092,000	849,193,000
Investments and Other Assets:		
Investments in and advances to entities, less allowance for losses of $2,691,000 ($4,034,000 in 1977)	60,954,000	45,478,000
Excess of investments in consolidated subsidiaries over net assets at acquisition	16,306,000	14,573,000
Miscellaneous other assets	9,110,000	9,262,000
	86,370,000	69,313,000
Property, Plant and Equipment, at Cost:		
Land	17,351,000	14,821,000
Buildings and leasehold improvements	196,397,000	175,765,000
Equipment	488,344,000	427,989,000
	684,741,000	603,754,000
Less Accumulated depreciation	293,766,000	264,988,000
	390,975,000	338,766,000
Lug boxes, baskets and pallets, less amortization	4.008,000	2,807,000
Net property, plant and equipment	412.334,000	356,394,000
	$1,333,796,000	$1,274,900,000

See notes to consolidated financial statements beginning on page 58.

Liabilities and Shareholders' Equity	May 3, 1978	April 27, 1977
Current Liabilities:		
Short-term debt	$ 70,272,000	$ 76,645,000
Portion of long-term debt due within one year	14,770,000	4,066,000
Accounts payable:		
Related to suppliers	149,494,000	149,313,000
Sundry	24,214,000	16,644,000
	173,708,000	165,957,000
Accrued liabilities	71,635,000	66,951,000
Federal, foreign and state income taxes	59,580,000	63,342,000
Total current liabilities	389,965,000	376,961,000
Long-Term Debt and Other Liabilities:		
Long-term debt	142,960,000	140,068,000
Incentive profit-sharing plans	7,173,000	6,437,000
Deferred Federal and foreign income taxes	36,109,000	32,276,000
Future United Kingdom income taxes	30,630,000	32,573,000
Sundry	18,524,000	15,946,000
	235,396,000	227,300,000
Minority interests	5,699,000	15,159,000
Shareholders' Equity:		
Capital stock:		
3.65% cumulative preferred	2,077,000	2,594,000
Third cumulative preferred, having a liquidation value of $30.50 per share, or $54,900,000, based on shares outstanding:		
$1.70 first series	18,000,000	18,000,000
Common stock	68,361,000	68,258,000
	88,438,000	88,852,000
Additional capital	83,839,000	82,882,000
Retained earnings	547,627,000	483,746,000
	719,904,000	655,480,000
Less Treasury shares at cost	17,168,000	—
	702,736,000	655,480,000
	$1,333,796,000	$1,274,900,000

Statements of Consolidated Additional Capital

Fiscal year ended	May 3, 1978	April 27, 1977
Amount at beginning of year	$82,882,000	$87,376,000
Change in par value of common stock in connection with stock split	—	(5,054,000)
Excess of:		
Option price over par value of common shares issued under employees' incentive stock option plans	858,000	522,000
Par value over cost of cumulative preferred stock retired	115,000	36,000
Par value over cost of preference stock retired (United Kingdom subsidiary)	—	2,000
Other	(16,000)	—
Amount at end of year	$83,839,000	$82,882,000

See notes to consolidated financial statements beginning on page 58.

Statements of Consolidated Changes in Financial Position

Fiscal year ended	May 3, 1978	April 27, 1977
Source of Funds:		
Net income	$ 99,171,000	$ 83,816,000
Provision for disposal of facilities (net of tax)	5,693,000	—
Depreciation	31,564,000	29,697,000
Deferred and future taxes	1,890,000	8,483,000
Minority interests and other	1,945,000	1,812,000
Funds from operations	140,263,000	123,808,000
Long-term borrowings	16,297,000	10,730,000
Other items, net	1,223,000	592,000
Total funds provided	157,783,000	135,130,000
Use of Funds:		
Capital expenditures	95,408,000	53,679,000
Less Retirements and disposals	(2,211,000)	(4,212,000)
	93,197,000	49,467,000
Dividends	35,290,000	27,426,000
Reductions of long-term debt	13,405,000	15,098,000
Purchase of treasury stock	17,430,000	—
Purchase of U.K. minority	13,489,000	—
Investments and other	12,077,000	5,479,000
Increase (decrease) in working capital—excluding cash, short-term investments and current debt:		
Receivables	28,272,000	(7,400,000)
Inventories	43,453,000	43,566,000
Prepaid expenses	5,730,000	2,025,000
Payables	(7,751,000)	(14,365,000)
Accruals	(4,684,000)	(3,096,000)
Income taxes	3,762,000	(24,668,000)
Change in working capital	68,782,000	(3,938,000)
Total funds used	253,670,000	93,532,000
Net Increase (Decrease) in Cash, Short-Term Investments and Current Debt	$ (95,887,000)	$ 41,598,000
Analysis of Net Increase (Decrease) in Cash, Short-Term Investments and Current Debt:		
Increase (decrease) in cash and short-term investments	$ (91,556,000)	$ 47,358,000
(Increase) decrease in current debt	(4,331,000)	(5,760,000)
	$ (95,887,000)	$ 41,598,000

See notes to consolidated financial statements beginning on page 58.

1. Significant Accounting Policies

Accounting Principles: The consolidated financial statements have been prepared using generally accepted accounting principles followed in the United States.

Fiscal Year: The company operates on a fiscal year ending on the Wednesday closest to April 30. The 1978 fiscal year, which ended on May 3, 1978, included 53 weeks, while the 1977 fiscal year ended on April 27, 1977 and included 52 weeks.

Principles of Consolidation: The consolidated financial statements include the accounts of the company and all domestic and foreign subsidiaries except for certain insignificant subsidiaries owning and operating fishing vessels, which are accounted for on the equity method. These latter subsidiaries, together with investments in other entities also primarily engaged in the ownership or operation of fishing vessels, are carried at cost plus equity in undistributed earnings since acquisition. All material intercompany transactions have been eliminated from the consolidated financial statements.

The excess of cost of investments in consolidated subsidiaries over the net assets acquired subsequent to fiscal 1971 is being amortized over 40 years, and the excess arising prior to fiscal 1972 is not being amortized. The portion subject to amortization was $9,470,000 at May 3, 1978 ($5,750,000 at April 27, 1977). The company regularly reviews the excess of cost of investments in consolidated subsidiaries over net assets at acquisition and recognizes, on a current basis, any diminution in value.

Translation of Foreign Currencies: Financial statements of foreign affiliates are translated using the provisions of Financial Accounting Standards Board Statement No. 8, "Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements." Monetary assets and liabilities are translated at current exchange rates. Nonmonetary assets and liabilities are translated at the exchange rates in effect when the assets were acquired or the liabilities incurred. Operating accounts are translated at average rates of exchange prevailing during the year. Unrealized gains or losses on the translation of foreign currency financial statements are recognized in the current income statement.

Inventories: Inventories are stated at the lower of cost (principally the average method) or replacement market.

Property, Plant and Equipment: Property, plant and equipment are carried at cost. Major additions and betterments are charged to the property accounts, while replacements, maintenance and repairs that do not improve or extend the lives of the respective assets are expensed in the year incurred. Property disposed of is removed from the asset and accumulated depreciation accounts, with the gain or loss recognized in the current income statement.

Depreciation: For financial reporting purposes, depreciation is provided on the straight-line method over the estimated useful lives as follows:

Buildings	10-50 years
Equipment	3-20 years

Accelerated depreciation methods are generally used for income tax purposes.

Income Taxes: The company has not provided for deferred taxes on the undistributed earnings of foreign subsidiaries that are considered to be reinvested indefinitely. Where it is contemplated that earnings will be remitted, the credit for foreign taxes already paid generally offsets applicable U.S. income taxes. In those cases where such foreign taxes do not offset U.S. income taxes, appropriate provisions are included in the Statements of Consolidated Income. Deferred income taxes result principally from differences between depreciation deducted for income tax purposes and for financial statement reporting. Future United Kingdom income taxes represent amounts not currently payable. The investment tax credit is accounted for under the "flow-through" method, which recognizes the benefit in the fiscal year in which the asset is acquired and placed into service.

Retirement Systems: It is the policy of the company and its consolidated subsidiaries to fund pension costs as accrued. Prior service costs are amortized over varying periods not exceeding 40 years.

Research and Development Expenses: Expenditures for agricultural, processing and marketing research and development are charged against income as incurred.

Interest Expense: Expenditures for interest are charged against income as accrued and are not capitalized in the consolidated financial statements.

Per Common Share Amounts: Primary income per common share has been computed by dividing income applicable to common shareholders (that is, after deducting preferred dividends) by 22,609,613 (22,743,233 in 1977), which represents the weighted average number of shares of common stock outstanding during the respective years. Fully diluted income per common share has been computed by adding dividends on convertible preferred stock to income applicable to common shareholders and dividing the resultant amount by the average number of shares of common stock outstanding plus the additional shares that would have been outstanding if preferred stock had been converted and outstanding stock options had been exercised.

2. Short-Term Debt

	1978	1977
Amount outstanding at year end	$ 70,272,000	$ 76,645,000
Average interest rate at year end	8.9 %	7.1 %
Average amount outstanding during period	$ 69,994,000	$ 63,046,000
Average interest rate for period	9.2 %	7.7 %
Maximum amount outstanding at any month end during period	$130,491,000	$ 90,192,000
Lines of credit available at year end	$201,737,000	$214,765,000
Lines of credit unused at year end	$131,465,000	$138,120,000

Amounts outstanding at each year end consist principally of bank borrowings. The average amounts outstanding were computed on the basis of month-end balances, and the average interest rates were computed by dividing the actual interest expense by the previously determined average amounts outstanding. In general, lines of credit are renewed from year to year and may be withdrawn or canceled at any time by either party. The company maintains cash balances of 10% of the line of credit with domestic banks. These balances are not subject to withdrawal restrictions.

3. Long-Term Debt
Details of long-term debt at May 3, 1978 and April 27, 1977 follow.

	Range of Interest	Maturity (fiscal year)	1978	1977
United States Dollars:				
Promissory notes	5½- 9¾%	1979-1990	$ 6,428,000	$ 7,063,000
Promissory notes	5¼	1979-1984	6,000,000	7,000,000
Promissory notes	6⅝	1979-1993	40,000,000	40,000,000
Revenue bonds	4⅞- 7⅜	1979-2003	11,224,000	6,126,000
Debentures	7¼	1984-1998	50,000,000	50,000,000
Mortgages and other	4 - 8	1979-2000	3,632,000	3,365,000
Capitalized lease obligations	—	—	3,413,000	—
			120,697,000	113,554,000
Foreign Currencies (U.S. dollar equivalents):				
Promissory notes:				
British pounds	9⅝-12½	1979-1983	3,600,000	1,412,000
Australian dollars	11⅝-12¼	1979-1980	13,560,000	13,200,000
Debentures:				
British pounds	5½- 6	1979-1985	4,253,000	4,283,000
Mortgages:				
Italian lire	3 - 7½	1979-1988	11,015,000	11,685,000
Capitalized lease obligations	—	—	4,605,000	—
			37,033,000	30,580,000
Total long-term debt			157,730,000	144,134,000
Less Portion due within one year			14,770,000	4,066,000
			$142,960,000	$140,068,000

Principal payments due on consolidated long-term debt outstanding at May 3, 1978 during the four years succeeding 1979 are as follows:

1980	$15,634,000
1981	$ 8,251,000
1982	$ 8,329,000
1983	$ 6,624,000

Under the most restrictive debt covenant limiting the payment of dividends (the indenture relating to the company's 7¼% debentures), retained earnings of $333,000,000 at May 3, 1978 were available for dividends ($287,000,000 at April 27, 1977).

Long-term debt of unconsolidated subsidiaries, incurred primarily to acquire fishing vessels, aggregated $10,598,000 at May 3, 1978, of which $4,239,000 has been guaranteed by the company. Principal payments due during the five succeeding years are as follows:

1979	$ 790,000
1980	$7,648,000
1981	$ 480,000
1982	$ 480,000
1983	$ 480,000

In addition, the company has guaranteed long-term debt of affiliated companies amounting to $12,612,000 at May 3, 1978.

4. Capital Stock

The number of shares authorized, outstanding, issued, retired or converted, and the par values of the company's capital stock appear in the table following this note.

The 3.65% cumulative preferred stock is callable or redeemable through the sinking fund at $102.75 per share. Payments (or open market purchases of such stock) aggregating $200,000 are required to be made to the sinking fund on or before October 1 of each year.

The company currently has outstanding 2,606 shares of $3.50 first and second series cumulative preferred stock, par value $18.50 per share. The total par value of these shares, $48,000 ($51,000 at April 27, 1977), has been included in sundry liabilities in the Consolidated Balance Sheets. The company is retiring these shares on the basis of annual sinking fund requirements. The involuntary liquidation value of these shares is $261,000.

The $1.70 first series third cumulative preferred stock is convertible into common stock at any time at a conversion rate of .75 share of common stock or may be redeemed by the company at $30.50 per share beginning on December 1, 1982, and at decreasing prices thereafter until December 1, 1986, when it may be redeemed at $28.50 per share.

At May 3, 1978 and at April 27, 1977, there were authorized, but unissued, 2,200,000 shares of third cumulative preferred stock for which the series had not been designated.

At May 3, 1978, 2,423,337 shares (2,484,238 at April 27, 1977) of common stock were reserved for conversion of convertible preferred stock outstanding and for outstanding options or for the granting of options under the employees' stock option plans.

	Cumulative preferred stocks					
	3.65% $100 par	$3.50 First series $18.50 par	$3.50 Second series $18.50 par	$1.70 First series $10 par	Common stock $3.00 par	Treasury stock
Year ended April 27, 1977:						
Outstanding at beginning	26,946	560	2,258	1,800,000	22,731,258	297
Reacquired and retired	(1,005)	(5)	(19)	—	—	—
Issued on exercise of stock options	—	—	—	—	21,566	(297)
Outstanding at end	25,941	555	2,239	1,800,000	22,752,824	—
Authorized at end	25,941	555	2,239	1,800,000	30,000,000	—
Year ended May 3, 1978:						
Outstanding at beginning	25,941	555	2,239	1,800,000	22,752,824	—
Reacquired and retired	(5,171)	—	(188)	—	—	—
Treasury stock acquired	—	—	—	—	—	500,000
Issued on exercise of stock options	—	—	—	—	34,332	(7,520)
Outstanding at end	20,770	555	2,051	1,800,000	22,787,156	492,480
Authorized at end	20,770	555	2,051	1,800,000	30,000,000	—

5. Employees' Stock Option Plans and Management Incentive Plan

The company has two employees' stock option plans approved by the shareholders. The 1976 Stock Option Plan permits the granting of a maximum of 750,000 shares of the company's common stock and the 1970 Stock Option Plan permits the granting of options to purchase a maximum of 450,000 shares of common stock of the company. The option price must not be less than fair market value at the time the options are granted for qualified options and nonqualified options to purchase unrestricted shares. The option price cannot be less than fair value as determined by the Executive Compensation Committee at the time options are granted for nonqualified options to purchase restricted shares. The Committee establishes the duration of the option, which may not exceed five years for qualified options or 10 years for nonqualified options.

Options granted under the 1970 Plan are immediately exercisable, while options granted under the 1976 Plan are subject to a one-year holding period. No options may be granted under the 1970 Plan and the 1976 Plan after June 9, 1980 and June 8, 1986, respectively, the expiration dates of the plans.

Nonqualified options under both plans may include stock appreciation rights that enable the holder to surrender unexercised options and to receive in exchange therefor shares of common stock with aggregate fair market value or, at the option of the Executive Compensation Committee, cash equal to the excess of the fair value of shares under option surrendered over the option price. All stock appreciation rights are subject to a one-year holding period. The company reflects in the Statement of Consolidated Income the excess of the fair market value of the company's common stock over the related option price for all stock options with associated stock appreciation rights. The company's expense in 1978 for these rights was $964,000.

Shares under option at May 3, 1978 were exercisable at that date except for 165,489 shares issued under the 1976 Plan that will become exercisable during 1979. Shares under option at April 27, 1977 were exercisable at that date except for 102,500 shares issued under the 1976 Plan that became exercisable during 1978. Shares under option that became exercisable in 1978 were 106,439 shares (23,540 shares in 1977). Data regarding options granted and exercised and shares reserved for additional grants appear in the table below.

The fair market value per share at the dates on which options were exercised ranged from $29½ to $39 in 1978 and $29¼ to $33⅞ in 1977, and the total fair market values of those options at the

same dates were $1,493,000 and $654,000, respectively.

The Management Incentive Plan covers certain key employees of the company and its subsidiaries. Participants in the plan may elect to be paid on a current or deferred basis. The aggregate amount of all awards may not exceed certain limits in any year. The company's expense in connection with the plan was $5,175,000 in 1978 ($4,824,000 in 1977).

		Fair market value at date of grant	
	Shares	Range	Total
For the year ended April 27, 1977:			
Shares under option at beginning	358,502	$25⅜-$34⅜	$10,479,384
Options granted	126,040	31⅜- 33	4,249,629
Options exercised	21,863	25⅜- 28⅞	592,189
Shares under option at end	462,679	$25⅜-$34⅜	$14,136,824
Shares reserved for granting of additional options	671,559		
For the year ended May 3, 1978:			
Shares under option at beginning	462,679	$25⅜-$34⅜	$14,136,824
Options granted	169,428	26⅞- 36¼	5,766,722
Options exercised	41,852	26⅝- 32⅜	1,223,065
Options surrendered	19,049	26⅝- 26⅞	509,292
Shares under option at end	571,206	$25⅜-$36¼	$18,171,189
Shares reserved for granting of additional options	502,131		

6. Income Taxes

The following constitutes the provisions for Federal, State, U.S. Possessions and foreign taxes on income for 1978 and 1977.

	1978	1977
Current:		
Federal, State and U.S. Possessions	$41,138,000	$45,167,000
Foreign	24,590,000	24,772,000
	65,728,000	69,939,000
Deferred	3,833,000	1,180,000
	$69,561,000	$71,119,000

The current provision represents the taxes on that year's income paid or payable within the next year, except for the company's United Kingdom subsidiary, which pays its taxes in the second following year, as provided by United Kingdom tax regulations. The current provision for Federal taxes in 1978 includes a reduction for the investment tax credit amounting to $3,058,000 ($1,953,000 in 1977). The deferred provision represents the taxes on that year's income due to be paid beyond the next year. The company files consolidated Federal income tax returns, and such returns have been settled for all years through 1971. An examination of the Federal income tax returns for 1972 and 1973 has been completed and the company has agreed with the results of that examination.

The provisions for taxes on income for 1978 and 1977 were 41.2% and 45.9%, respectively, of pretax income. The following reconciles the United States statutory rate with the effective rates.

	1978	1977
United States statutory tax rate	48.0%	48.0%
Investment tax credit	(1.8)	(1.3)
Income of foreign subsidiaries taxed at foreign tax rates	0.6	(1.1)
Income of U.S. Possessions subsidiaries taxed at possession tax rates	(5.7)	(4.5)
State income taxes (net of Federal income tax benefit)	1.5	1.4
Foreign currency adjustments without tax effects	(1.9)	3.1
Other	0.5	0.3
	41.2%	45.9%

7. Retirement Systems

The company and the majority of its domestic and foreign subsidiaries have pension plans covering substantially all employees. The total pension expense for 1978 was $22,909,000 ($20,458,000 in 1977). As of the most recent valuation date, the actuarially computed vested benefits of the plans covering employees of the company and its significant domestic subsidiaries exceeded fund assets by approximately $26,500,000. The unfunded past service cost of the company and its consolidated subsidiaries approximated $97,000,000 at May 3, 1978.

8. Foreign Operations

Condensed balance sheets of consolidated foreign subsidiaries appear below.

	May 3, 1978	April 27, 1977
Current assets	$ 363,385,000	$ 307,706,000
Current liabilities	(164,119,000)	(129,230,000)
Working capital	199,266,000	178,476,000
Fixed and other assets	172,046,000	163,643,000
Long-term debt and other liabilities	(102,002,000)	(112,183,000)
Net assets	$ 269,310,000	$ 229,936,000

Realization in U.S. dollars of assets located outside the United States is limited in certain instances by currency and other restrictions. Undistributed earnings of foreign subsidiaries amounted to $206,494,000 at May 3, 1978 ($191,486,000 at April 27, 1977). Deferred income taxes are generally not provided on such earnings, since they are considered to be reinvested indefinitely.

9. Inventories

The inventories at May 3, 1978, April 27, 1977 and April 28, 1976 that were used in determining cost of products sold for 1978 and 1977 are summarized as follows:

	1978	1977	1976
Finished goods	$323,295,000	$301,859,000	$275,642,000
Work-in-process	38,135,000	38,896,000	40,682,000
Ingredient and packaging material	169,013,000	146,235,000	127,100,000
	$530,443,000	$486,990,000	$443,424,000

10. Leases

During 1978, the company adopted the provisions of Financial Accounting Standards Board Statement No. 13, "Accounting for Leases." This Statement requires the recording of capital leases as an asset and a liability at the present value of the future lease payments, with depreciation and interest charges replacing rental expenses. The cumulative effect on earnings is not material and has been included in other income (deductions) in the current year's Statement of Consolidated Income. Property, plant and equipment at the end of 1978 include $7,083,000 representing the unamortized amount of future rental payments on capital leases, and debt includes $8,018,000 representing the unpaid principal portion of the related liabilities.

The company's leases include primarily warehousing and production facilities, and in certain instances provide for renewal at the company's option. Certain lease agreements provide that the company pay taxes, maintenance, insurance and other operating expenses applicable to the leased premises.

Future minimum lease payments under capital and noncancelable operating leases as of May 3, 1978 are shown in the following tabulation.

Period	Capital Leases	Noncancelable Operating Leases	Total
1979	$ 2,261,000	$ 8,203,000	$10,464,000
1980	1,354,000	6,654,000	8,008,000
1981	972,000	5,315,000	6,287,000
1982	826,000	4,134,000	4,960,000
1983	739,000	2,954,000	3,693,000
Thereafter	7,820,000	19,881,000	27,701,000
Total minimum lease payments	$13,972,000	$47,141,000	$61,113,000

Total minimum capital lease payments include $615,000 of executory costs and $5,339,000 representing the reduction to present value resulting in capitalized lease obligations of $8,018,000.

11. Supplementary Data

Set forth below is a summary of certain other financial statement data.

	1978	1977
Accrued liabilities (at end of year):		
Salaries and wages	$ 20,560,000	$19,870,000
Taxes, other than on income	8,391,000	4,741,000
Interest	2,134,000	2,841,000
Other	40,550,000	39,499,000
	$ 71,635,000	$66,951,000
Minority interests (at end of year):		
Preference shares—at par value	$ 1,815,000	$ 1,925,000
Common shareholders' equity	3,884,000	13,234,000
	$ 5,699,000	$15,159,000
Supplemental income statement information (for the year):		
Maintenance and repair expense	$ 68,391,000	$60,279,000
Depreciation expense	$ 31,564,000	$29,697,000
Tax expense, other than on income:		
Payroll taxes	$ 32,133,000	$27,142,000
Other	13,150,000	11,839,000
	$ 45,283,000	$38,981,000
Rent expense	$ 19,733,000	$18,497,000
Advertising expense	$121,224,000	$84,046,000

Other income (deductions) is set forth in the Financial Review and Management's Analysis on page 46.

12. Other Matters

In October, 1976, the company filed a complaint in the Federal District Court for the Western District of Pennsylvania charging the Campbell Soup Company ("Campbell") with violations of Section 2 of the Sherman Act and with unfair competition under the laws of the states in which the alleged violations occurred. The complaint seeks damages of $105,000,000, to be trebled under the antitrust laws, as well as injunctive relief to prohibit future violations of the antitrust laws. The complaint charges Campbell with attempting to monopolize and monopolizing trade in the manufacture and sale of canned retail soup. The complaint alleges that Campbell acted to foreclose or lessen competition by engaging in predatory pricing practices; deceptive and predatory advertising practices; and geographic discrimination in promotion and advertising, as well as engaging in a program of acquisition and other acts for the purpose of restraining competition. In November, 1977, Campbell filed a counterclaim seeking damages of $15,500,000, to be trebled under the antitrust laws, alleging certain practices of the company involving its foodservice business had violated the Federal antitrust laws. In April, 1978, the company filed a reply denying the allegations in Campbell's counterclaim and counterclaimed for additional damages (as yet undetermined), asserting that Campbell had itself violated the antitrust laws with respect to the marketing of certain foodservice products. This litigation is in the discovery stage and management is not in a position to predict its outcome or evaluate the effect it may have on the company's consolidated financial statements, but management is convinced of the merits of the company's claims and does not believe that, when finally concluded and determined, the Campbell counterclaim will have a material adverse effect on its consolidated financial statements.

The staff of the Federal Trade Commission is currently conducting investigations relating to the tuna industry, the frozen and dehydrated potato industry and the wet corn milling products industry. The company has supplied the staff with information in connection with all of these investigations and is in the process of supplying further information regarding the tuna industry investigation. At present, the company does not know what, if any, action may be taken by the staff of the Commission as a result of these investigations.

Because of the preliminary nature of these investigations, management is unable to set forth a definitive opinion with respect to the potential future impact of such investigations on the company's consolidated financial statements, but judging from the present status of such investigations, management does not believe that, when finally concluded and determined, they will have a material adverse effect on the consolidated financial statements.

Certain other claims have been filed against the company or its subsidiaries and have not been finally adjudicated. In the opinion of management, these claims, when finally concluded and determined, will not have a material adverse effect on the consolidated financial statements.

Contracts and purchase order commitments of approximately $39,000,000 at May 3, 1978 have been executed in connection with capital assets.

13. Quarterly Results (Unaudited)
A summary of results of operations for each quarter of 1978 and 1977 is shown on page 49 of the Financial Review and Management's Analysis.

14. Segment Data
The company operates predominantly in the food processing business segment—the manufacturing and marketing of processed food products. The company's other operations account for less than 5% of consolidated sales. Information about the company's foreign operations is contained in the Segment Data section on page 49 of the Financial Review and Management's Analysis.

15. Replacement Cost Data (Unaudited)
The Securities and Exchange Commission requires disclosure of certain replacement cost information in financial statements filed with the Commission. The required replacement cost information is contained in the company's Annual Report on Form 10-K, a copy of which is available upon request from the company. However, the company believes that the numerous assumptions and subjective judgments required and the estimations necessary to calculate this replacement cost data create results with significant inherent imprecision and with little, if any, comparability among companies, even in the same general industries. In addition, the results are not intended to, and in fact do not, reflect all of the effects of inflation and other economic factors on the company's results of operations and its financial position. The results obtained from the replacement cost calculations could, and most probably would, differ significantly from results of replacement when actually made, since the actual replacements will be based on economic, regulatory and competitive conditions existing at those future dates. The company believes the replacement cost information is of limited value and must be reviewed with caution and a thorough understanding of the inherent limitations therein.

Replacing items of plant and equipment generally requires larger capital outlays than were originally

required to purchase the asset being replaced because of technological improvements normally found in newer assets and the cumulative effect of inflation on long-lived assets. Accordingly, depreciation expense based on the replacement value of productive capacity would normally exceed depreciation expense based on historical value. This increase would be, at least partially, offset by cost savings resulting from the superior technology and related efficiencies of the newer assets.

During inflationary periods, inventory values and cost of products sold at replacement would normally exceed the corresponding historical values. Historically, however, even during periods of widely varying rates of inflation, the company has been able to maintain a relatively consistent gross profit margin through increased efficiencies, a greater emphasis on the more profitable products, and selective price increases when market conditions allowed.

16. Subsequent Events

During May, 1978, the company's Board of Directors, along with the Board of Directors of Weight Watchers International, Inc., approved an agreement in principle for the acquisition by the company of Weight Watchers. The company expects a definitive agreement with Weight Watchers to be signed shortly whereby the company would acquire all the common shares outstanding of Weight Watchers for approximately $71,000,000. Weight Watchers operates and franchises weight-control and weight-maintenance classes for diet-conscious individuals in the United States and overseas. It also licenses food manufacturers to produce and market food products under the Weight Watchers trademark that conform with Weight Watchers specifications. The proposed transaction is still subject to approval by shareholders of Weight Watchers, to receipt of certain opinions and to certain other conditions.

During June, 1978, the company acquired all the outstanding common shares of Foodways National, Inc. for approximately $50,000,000. Foodways makes and markets frozen dinners and portion-controlled entrees, bouillon cubes and sugar substitutes under the Weight Watchers label, as an exclusive licensee of Weight Watchers International.

On an unaudited pro forma basis, assuming the company had acquired Foodways and Weight Watchers at the beginning of 1978, net sales, net earnings and earnings per share for 1978 after amortization of goodwill and interest charges would not have been significantly more than those actually reported.

Accountants' Report

The Shareholders
H.J. Heinz Company:

We have examined the consolidated balance sheets of H. J. Heinz Company and consolidated subsidiaries as of May 3, 1978 and April 27, 1977 and the related statements of consolidated income and retained earnings, additional capital, and changes in financial position for the fiscal years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain subsidiaries, which are included in the consolidated statements. The net assets and sales of such subsidiaries constitute approximately 20% (24% in 1977) of the related consolidated totals. These statements were examined by other auditors whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for such subsidiaries, is based solely upon the reports of the other auditors.

In our opinion, based upon our examinations and the aforementioned reports of other auditors, the above mentioned consolidated financial statements present fairly the financial position of H.J. Heinz Company and consolidated subsidiaries as of May 3, 1978 and April 27, 1977, and the results of their operations and the changes in their financial position for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

Two Oliver Plaza
Pittsburgh, Pennsylvania 15222
June 27, 1978

10-Year Summary of Operations and Related Data

Fiscal Year	1978	1977	1976
Summary of Operations:			
Sales	$ 2,150,027	$ 1,868,820	$ 1,749,691
Cost of products sold	1,439,249	1,262,260	1,228,229
Interest expense	18,859	16,332	22,909
Provision for income taxes	69,561	71,119	53,675
Income from continuing operations	99,171	83,816	73,960
Loss from discontinued and expropriated operations	—	—	—
Income before extraordinary items	99,171	83,816	73,960
Extraordinary items	—	—	—
Net income	99,171	83,816	73,960
Per common share amounts:			
Income from continuing operations	4.25	3.55	3.21
Loss from discontinued and expropriated operations	—	—	—
Income before extraordinary items	4.25	3.55	3.21
Extraordinary items	—	—	—
Net income	4.25	3.55	3.21
Other Data:			
Dividends paid:			
Common —per share	1.42	1.06⅔	.86⅔
—Total	32,143	24,260	19,671
Preferred—Total	3,147	3,166	1,024
Capital expenditures	95,408	53,679	34,682
Depreciation	31,564	29,697	27,900
Shareholders' equity	702,736	655,480	598,613
Total debt	228,002	220,779	219,387
Average number of common shares outstanding	22,609,613	22,743,233	22,696,484
Book value per common share	28.96	26.27	23.79
Price range of common stock:			
High	40	34⅛	38
Low	28¾	26½	28⅞
Sales—domestic vs. foreign (%):			
Domestic	62	62	59
Foreign	38	38	41
Income—domestic vs. foreign (%):			
Domestic	67	78	66
Foreign	33	22	34

1975	1974	1973	1972	1971	1970	1969
$ 1,564,930	$ 1,349,091	$ 1,116,551	$ 1,020,958	$ 876,451	$ 781,739	$ 707,956
1,097,093	939,565	772,525	700,530	591,581	530,816	480,831
31,027	21,077	13,813	11,463	10,325	12,204	10,095
49,958	36,730	30,913	30,702	25,159	22,198	19,254
66,567	55,520	50,082	44,679	38,171	33,090	28,349
—	—	3,530	2,392	503	1,384	762
66,567	55,520	46,552	42,287	37,668	31,706	27,587
—	8,800	(25,000)	—	—	—	59
66,567	64,320	21,552	42,287	37,668	31,706	27,646
2.93	2.45	2.21	1.98	1.71	1.63	1.52
—	—	.16	.11	.02	.07	.04
2.93	2.45	2.05	1.87	1.69	1.56	1.48
—	.39	(1.10)	—	—	—	—
2.93	2.84	.95	1.87	1.69	1.56	1.48
.77⅓	.72⅔	.70	.67⅓	.65⅓	.58⅔	.53
17,502	16,427	15,814	15,178	14,468	11,573	9,506
139	146	165	184	314	635	1,187
57,219	44,096	48,322	28,067	30,449	40,047	28,810
25,090	22,535	20,950	20,143	19,667	16,788	15,272
502,796	447,434	399,607	394,519	366,969	341,005	275,610
295,051	266,617	249,161	196,309	184,104	165,414	170,768
22,633,115	22,604,720	22,591,287	22,538,309	22,165,821	19,879,289	17,896,112
22.04	19.61	17.50	17.26	16.07	15.09	13.47
34⅜	34⅞	30⅞	31½	30	26	24
18	24⅞	25⅜	25⅞	19⅛	18⅞	15⅝
58	59	58	57	59	58	58
42	41	42	43	41	42	42
71	57	53	54	58	53	49
29	43	47	46	42	47	51

Notes:

1. This summary should be read in conjunction with the financial statements and footnotes thereto on pages 53 through 70 and the Financial Review and Management's Analysis on pages 45 through 52.

2. All dollar amounts are in thousands except per share data.

3. Fully diluted earnings per share have not been shown since during the most recent five fiscal years they would not be significantly different from primary earnings per share.

World Headquarters
P.O. Box 57
Pittsburgh, Pennsylvania 15230

Heinz U.S.A. Division
Established 1869
Pittsburgh, Pennsylvania
Richard B. Patton, President
Factories: Fremont, Ohio/Henderson, North Carolina/Holland, Michigan/Isleton, California/Lake City, Pennsylvania/Lakeview, Michigan/Lithonia, Georgia/Muscatine, Iowa/Pittsburgh, Pennsylvania/Schaumburg, Illinois/Stockton, California/Tracy, California/Watsonville, California/Winchester, Virginia

Star-Kist Foods, Inc.
Acquired 1963
Terminal Island, California
Joseph J. Bogdanovich, Chairman and Chief Executive Officer
Jerry G. Scharer, Vice Chairman
John J. Real, President and Chief Operating Officer
Factories: Terminal Island, California/Muscatine, Iowa/Perham, Minnesota
Cold Storage/Collection Stations: Dakar, Senegal/Papua New Guinea/Papeete, Tahiti/Ghana/New Zealand/LePort, Reunion Island

Star-Kist Caribe, Inc.
Acquired 1963
Factory: Mayaguez, Puerto Rico

Star-Kist Samoa, Inc.
Acquired 1963
Factory: Pago Pago, American Samoa

Star-Kist International S.A.
Acquired 1963
Panama City, Panama
Factory/Collection Station: Tema, Ghana

Starkan, Inc.
Established 1968
Factory: Mayaguez, Puerto Rico

Ore-Ida Foods, Inc.
Acquired 1965
Boise, Idaho
Robert K. Pedersen, Chairman of the Board
Paul I. Corddry, President
Factories: Ontario, Oregon/Burley, Idaho/Greenville, Michigan/Massillon, Ohio

The Hubinger Company
Acquired 1975
Keokuk, Iowa
J. W. Connolly, President and Chief Executive Officer
Robert J. Wustrow, Chairman
Factory: Keokuk, Iowa

Pacific Area Office
Dandenong, Victoria
Ernest W. Barr, Area Director

H. J. Heinz Company Australia Ltd.
Established 1935
Dandenong, Victoria
Anthony J. Bardsley, Joint-Managing Director
Barry S. Gilbert, Joint-Managing Director
Factories: Dandenong, Victoria/Greenseas Division—Eden, New South Wales

The Stanley Wine Company Pty. Ltd.
Acquired 1971
Clare, South Australia
S. Olszewski, Director/General Manager

Epicure Continental Food Company Pty. Ltd.
Acquired 1972
Dandenong, Victoria
B. C. McGee, Director/General Manager

Baltic Merchandising Pty. Ltd.
Acquired 1973
Dandenong, Victoria
B. C. McGee, Director/General Manager

H. J. Heinz Company of Canada Ltd.
Established 1909
Toronto, Ontario
T. D. Smyth, President
Factory: Leamington, Ontario

Galco Food Products Ltd.
Acquired 1971
Toronto, Ontario
H. Gallinger, President

Nichiro Heinz Company Ltd.
Established 1961
Tokyo, Japan
Hisashi Tezuka, Managing Director
Factory: Kurihama

Latin American Area Office
Mexico City, Mexico
Manuel Albarran, Area Director

Caribbean Restaurants, Inc.
Acquired 1976
San Juan, Puerto Rico
F. Gerardo Larrea, President

Alimentos Heinz C.A.
Established 1959
Caracas, Venezuela
Louis J. Pacini, President
Factory: San Joaquin, Carabobo

H. J. Heinz Company Ltd.
Established 1905
Hayes, Middlesex, England
John A. Connell, Deputy Chairman
Charles F. Lowe, Managing Director
Factories: Harlesden (London)/Kitt Green/Standish

W. Darlington and Sons, Ltd.
Acquired 1969
Rustington, Sussex, England
John A. Connell, Chairman
T. W. A. Smith, Managing Director
Farms: Rustington/Horley/Camberley/Poling/
Angmering/Woking/Bradford-on-Avon

Pickerings Foods Ltd.
Acquired 1969
Hayes, Middlesex, England
J. G. Dudlyke, Managing Director
Management control of factories at:
Didcot, Berks (The Samor Pure Foods Ltd.)
Halnaker, Chichester (J. G. Read (Poultry) Ltd.)
Coleraine, Northern Ireland (Pickerings Foods Ltd.)

Heinz-Erin Ltd.
Established 1967
Dublin, Ireland
D. H. Rowe, Joint-Managing Director
M. G. Madigan, Joint-Managing Director

Heinz Sagima (Maroc) S.A.
Established 1974
Rabat, Morocco
Abderrahim Cherkaoui, President

Heinz-Perrier S.A.
Established 1973
Paris, France
John A. Connell, President

Central Europe Area Office
H. J. Heinz Company
Brussels, Belgium
Robert M. Kuijpers, Managing Director
Pieter den Dulk, Deputy Managing Director

H. J. Heinz B.V.
Acquired 1958
Elst, Gelderland, The Netherlands
Robert M. Kuijpers, Managing Director
Pieter den Dulk, Deputy Managing Director
Factory: Elst, Gelderland

H. J. Heinz Company (Belgium) S.A./N.V.
Established 1947
Brussels, Belgium
J. M. Verdonck, General Manager-Marketing and Sales

H. J. Heinz GmbH
Established 1970
Düsseldorf, Germany
S. A. Launder, General Manager-Marketing and Sales

IDAL (Industrias de Alimentacao Ltda.)
Acquired 1965
Lisbon, Portugal
Jorge Giralt, General Manager
Factory: Benavente

PLADA (Plasmon Dietetici Alimentari S.p.A.)
Acquired 1963
Milan, Italy
Charles M. Berger, Managing Director
Luigi Ribolla, Director General
Factories: Milan/Latina/Ozzano Taro

Board of Directors

Henry J. Heinz II
Chairman
Director since 1936

R. Burt Gookin
Vice Chairman and Chief Executive Officer
Director since 1959

Anthony J. F. O'Reilly
President and Chief Operating Officer
Director since 1971

Franklin E. Agnew
Senior Vice President
Director since 1971

Joseph J. Bogdanovich
Senior Vice President; Chairman, Star-Kist Foods, Inc.
Director since 1963

Frank M. Brettholle
Senior Vice President-Finance and Treasurer
Director since 1973

John A. Connell
Senior Vice President; Deputy Chairman, H. J. Heinz Company Ltd.
Director since 1968

Lewis A. Lapham
Director, Various Corporations
Director since 1957

John A. Mayer
Director, Various Corporations
Director since 1959

F. James McDonald
Executive Vice President, North American Automotive Operations, General Motors Corporation, Detroit, Michigan
Director since 1977

Donald C McVay
Senior Vice President-Corporate Development
Director since 1968

John T. Ryan, Jr.
Chairman of the Board, Mine Safety Appliances Company, Pittsburgh, Pennsylvania
Mine safety equipment
Director since 1961

Herman J. Schmidt
Vice Chairman of the Board of Directors, Mobil Oil Corporation, New York, New York
Director since 1977

William P. Snyder III
President, The Shenango Furnace Company, Pittsburgh, Pennsylvania
Pig iron and ingot molds
Director since 1961

S. Donald Wiley
Senior Vice President, Secretary and General Counsel
Director since 1972

Committees of the Board

Executive Committee:
Mr. Gookin, Chairman; Mr. Heinz, Mr. O'Reilly, Mr. Agnew, Mr. Bogdanovich, Mr. Brettholle, Mr. Connell, Mr. McVay, Mr. Wiley

Executive Compensation Committee:
Mr. Mayer, Chairman; Mr. Heinz, Mr. Lapham, Mr. McDonald, Mr. Snyder

Audit Committee:
Mr. Lapham, Chairman; Mr. Ryan, Mr. Schmidt, Mr. Snyder

Nominating Committee:
Mr. Lapham, Chairman; Mr. Mayer

Officers

Henry J. Heinz II
Chairman of the Board

R. Burt Gookin
Vice Chairman and Chief Executive Officer

Anthony J. F. O'Reilly
President and Chief Operating Officer

Franklin E. Agnew
Senior Vice President

Joseph J. Bogdanovich
Senior Vice President

Frank M. Brettholle
Senior Vice President-Finance and Treasurer

John A. Connell
Senior Vice President

David A. Lattanzio
Corporate Controller

Donald C McVay
Senior Vice President-Corporate Development

S. Donald Wiley
Senior Vice President, Secretary and General Counsel

Corporate Data

Transfer Agent, Registrar and Disbursing Agent
Mellon Bank N.A.
Pittsburgh, Pennsylvania

Auditors
Peat, Marwick, Mitchell & Co.
Pittsburgh, Pennsylvania

Stock Listing
New York Stock Exchange
Ticker Symbols:
Common: HNZ
Third Cumulative Preferred: HNZ PR

Corporate Information

Annual Meeting
The annual meeting of the company shareholders will be held at 2 p.m. on Wednesday, September 13, 1978 at World Headquarters in Pittsburgh. Formal notice of the meeting and proxy materials will be sent to shareholders about August 7, 1978.

Form 10-K Information
The financial statements appearing in this annual report to shareholders are substantially the same as those which the company was required to file with the Securities and Exchange Commission in its Annual Report on Form 10-K. In compliance with SEC regulations, the Form 10-K Report contains certain supplemental financial information and other related data. The company will furnish a copy of Form 10-K without charge upon written request. Such request should be directed to Corporate Public Relations Department, H. J. Heinz Company, P.O. Box 57, Pittsburgh, Pennsylvania 15230.

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Photography: Bruce Davidson, Magnum

Heinz
H. J. Heinz Company
P.O. Box 57
Pittsburgh, Pennsylvania 15230
Telephone (412) 237-5757